UNIT 7 PRODUCT CONCEPTS AND CLASSIFICATION

Structure

7.0 Objectives

7.1 Introduction

7.2 Meaning of Product

7.3 Classification of Products

- 7.3.1 Consumer Goods
- 7.3.2 Industrial Goods
- 7.3.3 Durable Goods and Non-durable Goods
- 7.3.4 Services

7.4 Product Mix

7.5 Product Mix and Product Line Strategies

7.6 Services - Meaning and Scope

- 7.6.1 What arc Services?
- 7.6.2 Difference between Services and Products
- 7.6.3 Interdependence of Products and Services

7.7 Service Classification

7.8 Challenges in Marketing of Services

7.9 The Services Marketing Mix

7.10 Let Us Sum Up

7.11 Key Words

7.12 Answers to Check Your Progress

7.13 Terminal Questions

7.0 OBJECTIVES

After studying this unit you should be able to

- explain the meaning of product and its essential attributes
- distinguish between various types of products
- describe the terms "product mix' and 'product line' and explain product line related strategies
- explain the concept of services and characteristics that distinguish them from products
- describe the ways in which services can be classified
- explain the challenges in marketing of services
- identify the services marketing mix.

7.1 INTRODUCTION

In the previous two blocks you have learnt the basic concepts of marketing i.e., nature and scope of marketing, marketing environment, marketing information and

research, buyer behaviour, segmentation, targeting and positioning. When a marketer starts his operation, he has to contend with certain environmental forces that tend to influence his activities. To match such forces, keeping organisational strengths and limitations in mind, he develops an overall marketing programme called marketing mix. The marketing mix is composed of four elements viz., product, pricing, place and promotion. It is also referred to as four 'Ps' of the marketing mix. In this unit you will study the first element of the marketing mix – the product. You will study the meaning and essential attributes of a product, types of products, product mix and product Line and related strategies. The unit also explains the concept of service and how services are different from goods, the service classification scheme, the challenges involved in services marketing and the services marketing mix.

7.2 MEANING OF PRODUCT

We lake steel sheet, nuts and bolts, a motor, paint, and other accessories, process them in a given manner and our effort may result in the form of a washing machine. However, when the consumer buys the machine, it is not simply the machine that emerged out of the efforts and things that went into it. The consumer buys it because he has a specific want (i.e., something to aid in washing clothes) and the consumer is exploring a way to satisfy that want. He looks for an accepted brand name, a warranty, an assured after-sales service, some appealing physical features and an impressive colour. Thus, marketers should recognize that people are not simply interested in buying the physical features of the product, but they buy to satisfy their wants. For that matter some products which people buy do not have physical feature at all. Take for instance an income-tax consultant. He sells his advice which does not have any physical features. It means, apart from physical products. we must also include services within the scope of our discussion.

Thus, a product may be defined in a narrow as well as broad sense. In a narrow sense, it is a set of tangible physical and chemical attributes in an identifiable and readily recognizable form. In a broader sense we may look at it in the form of an object, idea, service, person, place, activity, goods, or an organisation. It can even be a combination of some of these factors.

Let us study how 'product' is being defined by various people. According to Philip Kotler, *a product is anything that can he offered to a market for attention, acquisition, use or.consumption; it includes physical objects, service, personalities, place, organisation and ideas.*

Jay Diamond and Gerald Pintel stale that *the total product, in addition to the physical product, includes guarantees, installation, instructions for use, packaging, branding and the availability of.' service. The total product is what the customer buys, and frequently the fringe characteristics such as guarantees and servicing are as important as the physical product itself*

William 3. Stanton defined the term 'product' as *a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs.*

As defined by Jerome McCarthy, *a product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfils some psychological needs and the assurance that service facilities will be available to meet the customer's needs after the purchase.*

According to W. Alderson, *a product is a bundle of utilities consisting of various product features and accompanying services.*

Schwartz defined a product as *something a firm markets that will satisfy a personal want or fill a business or commercial need; unrl includes all the peripheral factors that may contribute to consumer's satisfaction.*

From the above definitions it can safely be concluded that the word product, in the context of marketing, has a much wider connotation. It is applicable to any offering to a market for possible purchase or use. It encompasses physical objects (e.g., a television), services (e.g., airlines), places (e.g., tourist resorts), organisations (e.g., Red Cross), persons (e.g., an athlete) and ideas (e.g., flood relief aid). It also includes supporting services e.g., design, brand, package, label, price, etc. *To sum up, a product is a combination of physical, economic, social and psychological benefits.*

Essential Attributes of a Product

Based on the above definitions, we can list out the essential characteristics of a product as follows:

1) **Tangible or Intangible:** It may be capable of being touched, seen and felt. For example, products like a comb, refrigerator and motor cycle are tangible. At tlie same time, a product need not necessarily be tangible. It can be intangible but capable of providing a service. For instance, repairing, hair-dressing, insurance, etc. are intangible but provide satisfaction to the customers.
2) **Associated Attributes:** A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including colour, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products From each other.
3) **Exchange Value: A** product must be capable of being exchanged between a buyer and a seller at a mutually acceptance cost.
4) **Satisfaction:** It should be capable of providing,satisfaction to the buyer, both real and psychological. As far as the seller is concerned, it should provide the much needed business benefit.

A product, therefore, can be considered as comprising of three distinct levels. At the First level is the core product i.e., the core benefit which the consumers seek to buy. The second level of the product can be described as the actual product. This includes the packaging, brand name, features of the product, the design, tlie shape, quality etc. The third level is the augmented product. In addition to the actual product, the provider may give additional customer services such as after sales service, warranty, delivery, installation etc.

Check Your Progress A

1) What is a product?

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2) State whether the following statements are True or False.
   i) A product is always tangible.
   ii) A product provides satisfaction to the customer.

iii) A product cannot be identified.

iv) Every product has exchange value.

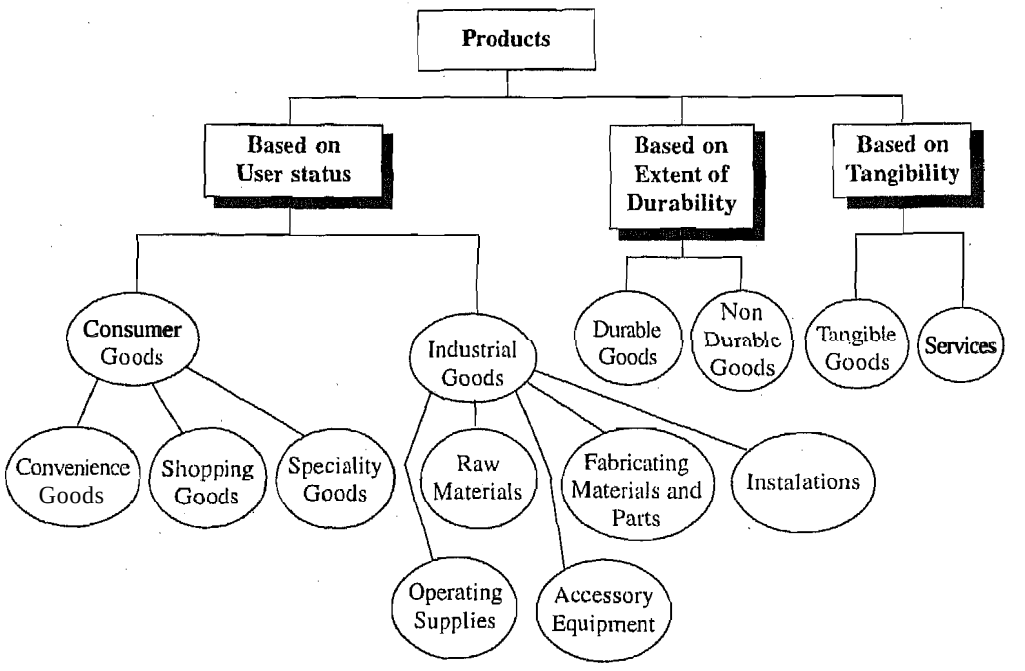
7.3 CLASSIFICATION OF PRODUCTS

You have studied in Unit 5 that, in order to market effectively, the markets are segmented and marketing strategies are developed for each segment. In the same way, it is also useful to classify products into homogeneous groups, as different types of products require different marketing approach. There are several ways of classifying products:

1) On the basis of the user status, products may be classified as consumer goods and industrial goods.

2) On the basis of the extent of durability, products may be classified as durable goods and non-durable goods.

3) On the basis of tangibility, products may be classified as tangible goods and non tangible goods. These non-tangible goods are referred to as services.



Fig, 7.1: Classification of Products

Look at Figure 7.1 carefully for a detailed classification of products. These classifications are necessary for a marketer, as different types of products require different marketing strategies.

Let us now take the following four major types, and analyse their characteristics and marketing strategies:

1) Consumer goods

2) Industrial goods

3) Durable and Non-durable goods

4) Services.

7.3.1 Consumer Goods

Consumer goods are those products which are bought by the households or

ultimate consumers for personal non-business use. Consumers use the product in the form in which the product is being offered i.e., no further processing is done. For example, a tooth brush, a comb, a wrist watch or a moped are all meant for personal use of liouseholds mid are, thus, classified as consumer goods. Consumer goods may be classified into three types as : i) convenience goods, ii) shopping goods, and iii) speciality goods. Let us discuss these three categories in detail.

i) Convenience Goods

A class of consumer goods that people buy frequently with the least possible time and effort are called 'convenience goods'. These are the products the consumers want to purchase frequently, immediately, and with minimuni effort. Milk, bread, butter, eggs, soap, newspaper, biscuits, tooth pastes, etc., are some examples of convenience goods. This category of goocls has a low unit price, and not greatly affected by fad and fashion. They have two significant characteristics : 1) the consumer has complete knowledge of the products which he wants to buy and 2) tlie product is purchased with a minimum of effort. Convenience goods are usually sold by brand name and are low-priced. Many of them such as bread, milk and edible oil, are staple items, and tlie supply must be constantly replenished. In most cases, the buyer has already decided to buy a particular brand at a particular store and spends little time deliberating about the purchase decision. So convenience goods must be readily available when the consumer demand arises. To ensure this, the manufacturer must secure wide distribution.

The consumers rarely visit competing stores to compare prices and quality while purchasing convenience goods. The possible gains from such comparisons are outweighed by tlie costs of acquiring the additional information. This does not mean, however, that tlie consumer remains permanently loyal to one brand of cigarette, or soap or biscuit. A consumer is willing to accept any of several brands and thus, will buy the brand that is most accessible. Since the price of most convenience goods is low, trial purchases of competing brands or products are made with little financial risk, and often new habits are developed.

Retailers usually carry several competing brands of convenience products, and are not able to promote any particular brand. Tlierefore, the promotional burden to develop consumer acceptance for the products falls on tlie manufacturer.

ii) Shopping Goods .

These are a class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., of alternative products in competing stares. The purchaser of shopping goods lacks complete information prior to the shopping trip and gathers information during it. For instance, a woman intending to buy a new dress may visit many stores, try on a number of dresses, and spend time making the final choice. She may go from store to store in surveying competing offerings and ultimately select the dress that appeals the most to her. In addition to women's apparel shopping goods include such items as jewellery, furniture, appliances, shoes, etc. It is important to place the shopping goods in stores located near other stores carrying competing items, as it facilitates the customers to compare the product. Shopping goods are typically more expensive than convenience goods.

Some shopping goods, such as children's shoes, are considered homogeneous i.e., the consumer views them as essentially the same. Others such as furniture and clothing are considered heterogeneous i.e., essentially different. Price is an important factor in the purchase of homogeneous shopping goods, while quality and style are relatively more important in the purchase of heterogeneous goocls.

iii) Speciality Goods

A class of consumer goods with perceived unique charucteristics, such that consumers are willing to spend special effort to buy them, are known as Speciality Goods. The buyer of speciality goods is well aware of what he or she wants and is willing to make a special effort to obtain it. The nearest camera dealer may be twenty miles away, but the camera enthusiast will go there to inspect and buy that camera. To purchase a colour TV a person in a village may require a special trip to a nearby city which is several miles away. Still he will go there, spend his time in inspecting several brands and finally buy a set of his own choice. Examples of some of the speciality goods are photographic equipments, TV sets, video players, mobile phones, automobiles, etc.

Speciality goods possess unique characteristics that cause the buyer to prefer that particular brand. For these products the buyer possesses complete infoimation prior to the shopping trip and is unwilling to accept substitutes. Speciality goods are typically high-priced and are always branded. Since consumers are willing to exert considerable effort to obtain them, fewer retail outlets are needed. Since brand is important, the manufacturers of speciality goods adve tise extensively.

This three-way classification of consumer goods allows the marketing manager to gain additional information for developing an effective marketing strategy for the product. For instance, once the new food product has been classified as a convenience product, you gain insight about marketing strategies in branding, promoting, pricing and distribution methods.

7.3.2 Industrial Goods

Industrial goods are those goods which are meant to he bought by the buyer as inputs in production of other products or for rendering some service. The product may, thus, undergo further commercial processing. *Industrial products are meant for non-personal and commercial use.* Industrial goods include items like machinery, raw materials, components, etc. It may be worthwhile clarifying a point that the same product may sometimes be classified as a consumer product and as an industrial product depending upon the end-use. Take the case of coconut oil. When it is used by a person as hair oil or cooking oil, it would be treated as a consumer product. However, when coconut oil is used in the manufacture of a toilet soap it is treated as an industrial product. Similarly, take the case of car tyres. When it is used by a car owner, it becomes a consumer product. The same tyre when used by a car manufacturing company, it becomes an industrial product. Thus, many products can be treated as industrial goods as well as consumer goods. However, the industrial buyer is cost-conscious and is concerned about the quality and standard of the product being offered to him. An industrial buyer is not impulsive and is rational in buying effort. Therefore, industrial goods are to be sold in a different way from consumes goods.

Depending on how the goods enter the production process, industrial goods may be classified into following five groups.

i) Raw Materials

Raw materials are those industrial goods that become part of another physical product. Raw materials include goods found in natural state such as minerals, marine products, land, products of forests, etc., and agricultural goods like'cotton, fruits, milk, eggs, etc. Marketing strategies for the two categories of raw materials are different. First group of raw materials are normally bulky and have low unit value. They are produced by a few large producers. Second category of raw materials (agriculture products) is produced by a large number of small producers spread over a large area. Most of the second category products are perishable.

ii) Fabricating Materials and Parts

This category of industrial goods also becomes actual part of the finished product. Unlike raw materials, fabricating materials and parts have already been processed, to some extent, but may need further processing before actual use. For example, yam being woven into cloth and pig iron being converted into steel.

iii) Installations

They are manufactured industrial proclucls, e.g., a generator and a large pump set for city water supply scheme. They alter the scale of operations in a firm, Normally, installations are directly sold to the industrial user and middlemen are not involved. Pre-sale and post-sale servicing is required for these products.

iv) Accessory Equipment

They are used to aid production operations of an industrial buyer and do not have an influence on scale of operations of tlie buyer. They do not form part of the finished product.

v) Operating Supplies

They are low priced, short-lived items purchased with minimum effort and could well be termed as convenience goods of industrial field. They aid in the firm's operations without becoming part ofthe end product e.g., lubricating oil, stationery, etc.

It may be added that the demand for industrial products is derived, inelastic and widely fluctuating. The buyer is knowledgeable and their number is limited. Because of large size of demand, an industrial buyer can influence the market to a large extent.

7.3.3 Durable Goods and Non-Durable Goods

Tangible products with a long life and lusting many years of active service to owner are termed as durable goods. Television, fan, refrigerator, pressure cooker, etc., may be cited as examples of durable goods. A durable product would require a lot of personal selling, and pre-sales and post-sales service. Such products provide a higher margin to seller but require an assured after sales guarantee. Therefore in case of refrigerators, the number of years of guarantee (particularly for tlie compressor) is an important consideration when a consumer makes his final selection.

If a customer purchases a photocopying machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by persons who may not know how to use it. This results in poor duplication and copies look unattractive and the customer gets the impression that the fault lies with tlie machine. So, while marketing such a product, it is important to guide tlie actual use of the machines.

Products which are consumed in one go or last a few uses and get depleted on consumption are termed as non-durable goods. Soap, tooth paste, cigarette, soft drinks, etc., are some examples of lion-durable goods. For example, a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and, therefore, there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty. In view of the fact that such products are consumed very fast and require frequent purchases, they need to be made available in a large number of sales points.

7.3.4 Services

Services are specially mentioned here because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. *Services are those separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.* For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticized; the fire department generally praised; the post office criticized for delays; the hospitals perhaps criticized for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building up its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which include airlines, banks, hotels, and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners, etc. also need marketing. We will study services in details in sections 7.6 to 7.9 of this unit.

Check Your Progress B

1) Distinguish between consumer goods and industrial goods.

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2) Distinguish between durable and non-durable goods.

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3) What is a service?

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4) Which one of the following are durable goods and which are non-durable goods?

i) Television

ii) Tooth Paste

iii) Bath Soap

iv) Refrigerator

v) Desert Cooler

vi) Hair Oil

7.4 PRODUCT MIX

A product mix is the set of all products and items that a particular seller offers for sale. It is also termed as product assortment. Product .mix consists of product lines. For example, the product mix of ITC consists of product lines like hotels, cigarettes, ready-made garments, grocery, and paper.

A company's product mix consisting of different product lines has a certain width, length, depth and consistency. These concepts are illustrated in Figure 7.2 for selected Hindustan Lever Limited (HLL) products:

i) **Product Line: A** product line is an expression generally used to describe a group of closely related products. A group of products may be referred to as a product line either because they cater to the needs of a particular group of buyers, or they function in similar manner or they are sold through identical marketing facilities or fall within the same price range. The crux of the situation is that such reasoning may be consistently used for referring to a product group as a product line. A seller may identify a number of product lines to be offered to buyers by keeping in view the buyer's considerations, economy of production, distribution, etc. Figure 7.2 shows different product lines of HLL viz. personal wash, oral care etc.

ii) **Product** Mix **Width:** This refers to how many different product lines the company carries. Figure 7.2 shows aproduct mix width of six lines.

iii) **Product Mix and Product Line Length:** The length of the product mix refers to the total number of items in the mix. 111 Figure 7.2, it is 18. We can also calculate the average length of the product line by dividing the length of the product mix (here 18) by the number of lines (here 6). In this case average length of product line is (18/6) i.e. 3. The length of the product line refers to the total number of product items offered in a product line. For example, in figure 7,2 the personal wash line has the length of seven product items and the oral care line has two product items. **A** product item can be defined as a specific version of a product that has a separate brand name or designation in the seller's list.

iv) **Depth:** The depth of a proclict mix refers to how many variants are offered of each product in the line. IS Pears comes in 2 sizes (75 gms. and 125 gms.) and four formulations (Pears, Pears Oil Control, Pears Germ Shield and Peurs Junior), it has a depth of (2x4) i.e. 8. The average depth ofHLL product mix can be calculated by averaging the number of variants within the brand groups.

v) **Consistency:** The consistency of the product mix refers to how closely related the various product lines are in terms of end-use, production requirements, distribution channels, etc.

Pruduct-Mix Width →

	Personal wash	Oral care	Laundry	Deodorants	Skin care	Hair care
↑ **Product-Line Length** ↓	Lux Lifebuoy Liril Hamam Dove Pears Rexona	Pepsodent Close-up	Surf Excel Rin Wheel	Axe Rexona	Fair & Lovely Ponds	Sunsilk Clinic

Figure 7.2: Product Mix Width and Product Line **Length for HLL Products.**

7.5 PRODUCT MIX AND PRODUCT LINE STRATEGIES

Product mix of a seller, while giving expression to its current position, is also an indicator of the future. Thus, product mix is not a static position but a highly dynamic concept. A company may withdraw a product from its existing mix, if the product is not contributing to the profitability and growth of the company. Similarly, a new product may also be added to cash on some attractive opportunity that comes its way. Thus, the companies always attempt to maintain an optimal product mix with a view to maintain a balance between current profitability and future growth and stability. Towards this end, a company alters or modifies the existing product line in any of the following ways:

1) **Contraction of the Product Line:** When a company finds that some of its products are no more profitable, it may decide to suspend their production. Similarly, changes in the marketing environment may also necessitate withdraw1 of a product. A product may also be dropped from the product line if it is found that the same resources used for the production of the product can be put to more profitable use by producing another product. Decisions relating to these aspects are termed as *"Contraction of the Product Line"*. Thus, *thinning out the product mix either by eliminating an entire line or simplifying the product items within tlie line is called contraction of product line.* This is also called **Contraction of Production Mix or Product Line Simplification.** This strategy is adopted mainly to eliminate low-profit products and to get more profit from fewer products.

2) **Expansion of Product Mix:** To cash on available opportunities, a company decides to expand its present product line. It may also increase the number of product lines and the depth within a line. Such new lines may be related or unrelated to the existing product mix. For example, a company dealing in drugs and chemicals may add products in a relatively new area like computers.

3) **Changes in Quality Standards:** When the market expectations undergo a change, a firm may have to react by altering quality standards of the existing products. Such changes can be brought about through **Trading Up** and **Trading Down.**

   i) **Trading Up** : When we add a higher priced prestige product to the existing low-priced product line, it is termed as **trading up.** This strategy is adopted with the hope of increasing the sales volume of the existing low-priced products. If conditions so demand in future, the company may increase promotional efforts for the new product and thus add overall sales volume through the new product, thereby improving profitability of the firm. In this manner a company known for low-quality products tries to raise its image of dealing in high-quality goods on the one hand and offering an alternative to buyer to choose from. We often hear such terms as "Janta Model" and "Deluxe Model" and this illustrates the point.

   ii) **Trading Down:** It is the reverse of trading up. When a firm adds low quality products at relatively lower price to its line of high priced prestige products, it is termed as trading down strategy. It helps in widening the marketing base and results in expanding overall sales volume. Introduction of moped by a company manufacturing motor cycles is a case of trading down.

4) **Affecting Change in Model/Style of an Existing Product:** The desire of the consumer varies with varying times. To cope with such change in the consumer mood, a company can react by offering new models of a product or changing the style of an existing product.

5) **Product Differentiation:** Under this strategy, a firm tries to differentiate its products from the competitor's products or other products within the same product line offered by the company by highlighting quality or design. This strategy is aimed at avoiding competition on price basis. The competition is then met at non-price front and a pricewar is avoided. The firm, thus, promotes awareness of the good attributes of the product offering. In view of the fact that this strategy involves large promotional effort with huge financial outlays, it is also known as promotional strategy.

6) **Product Positioning:** As an integral part of product segmentation, after the market is segmented, it becomes necessary to pinpoint the needs of each segment and offer products to satisfy the needs of specific segments. This process is referred to as product positioning. It includes all activities from identification of a market segment to directing marketing effort at it.

7) **New Product:** In view of increasing competition, scientific advancements, enhanced consumer expectations, it is necessary that new products are introduced. Such introduction is essential for the survival and growth of an organisation. The rate of increase in expenditure on Research and Development by many organisations is a clear proof of the need and realization to introduce new products.

Check Your Progress C

1) What is the meaning of product mix?

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2) What is a product line'?

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3) Differentiate between trading up and trading down.

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4) What is contraction of product mix?

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5) Distinguish between product item and product line.

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6) Match the items in Column A with the items in Column B.

Column A	*Column B*
i) Trading up	a) To avoid competition on price basis
ii) Product line	b) Adding a low priced product to a high priced product line
iii) Contraction of product line	c) Group of closely related products
iv) Product Differentiation	d) Adding a high priced product to a low priced product line
v) Trading down	e) Suspension of a product item from the product line

7.6 SERVICES - MEANING AND SCOPE

Let us first understand the meaning of services, how they are different from products and the interdependence between product and services.

7.6.1 What are services?

It is generally thought that marketing is related to products only. This perception is not peculiar to India or developing world only. In fact, till recently services never found a place in multilateraldiscussions in GATT(now WTO) or data and information relating to services were never included in either international or national publication. It should be remembered that marketing concepts and techniques are equally applicable to services with relevant adaptations in certain decision areas. As mentioned earlier; services are those separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service. For example, hospitals, universities, banks, insurance companies, transport films, fire departments, police and post office.

To put it in simple terms, a product is an object, a device, a tangible thing; and a service is a deed, a performance, an effort. This captures the essence of the difference between products and services. Services are a series of deeds, processes and performances; hence tend to be more intangible, personalized, and custom-made than products. The services offered by SBI, LIC, IGNOU and MTNL are not tangible things that can be touched, seen and felt, but rather are intangible deeds and performances. Similarly, the core offerings of hospitals, hotels, and utilities comprise primarily deeds and actions perfoimed for customers.

Services are produced not only by service businesses such as those listed above, but are also integral to the offerings of many goods. For example, car manufacturers offer warranties and servicing contracts, and industrial equipment producers offer maintenance services. White goods manufacturers provide after-sales services. Even producers of items such as medicines and food items offer services to the consumers in the form of educating them through pamphlets as to how to use and maintain the item. These are examples of deeds, processes and performances associated with product offerings.

Compatible with broad definitions given above services may include all economic activities whose output is not a physical product, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser. This definition has been used also to delineate the service sector of the economy.

Details of industries classified within the service sector (as presented by Valarie Zeithaml and Mary Jo Jitner, Services Marketing, McGraw Hill), is discussed below for understanding of the broad spectrum of the services sector.

Transportation and Public Utilities

- Transportation (Railroad transportation, Local and inter-urban passenger transit, Trucking and warehousing, Water transporeation, Air transportation, Pipelines except natural gas, and other Transportation services)
- Communication (Telephone and telegraph, Radio and television broadcasting)
- Electric gas and sanitary services

Wholesale Trade

Retail Trade

Finance, Insurance, and Real Estate

- Banking
- Credit agencies other than banks
- Security and commodity brokers, and services
- Real estate

Holding and other Investment

Other Services

- Hotels and other lodging places
- Personal services
- Business services
- Auto repair, services and garages
- Miscellaneous repair services
- Motion pictures
- Amusement and recreation services
- Health services
- Legal services
- Education services
- Social services and membership organisations
- Miscellaneous professional services
- Private household services

Federal Government

- Civilian
- Military

Government Enterprises

State and Local Government

- Education
- Other services

Though the above is not a very exhaustive listing, this should give a clear idea as to how services encompass a wide range of activities.

7.6.2 Difference between Services and Products

Based on the above discussion, we can identify four basic characteristics of services, that differentiate them from products. They are : (1) intangibility, (2) heterogeneity, (3) simultaneous production and consumption, and (4) perishability. Let us discuss them in detail.

Intangibility

The most basic difference between goods and services is intangibility. Services are performances or actions rather than objects. Therefore, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods. The absence of tangible features means that it is difficult for the seller to demonstrate or display services, and for buyers to sample, test or make a thorough evaluation before buying them. For example, health care services are actions (e.g. surgery, diagnosis, examination, treatment) performed by doctors and directed towards patients. One cannot see or touch these services, although you may be able to see and touch certain tangible components of them (e.g. equipment, hospital room). In fact, many services such as health care are not easy for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed, the patient may not fully comprehend the services performed.

Heterogeneity

It is often impossible to assure homogeneity and consistency in the service provided by a seller, because services are peifonnances rendered by human beings. Hence no two services will be precisely alike. The service is performed and delivered by employees (people), and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because, no two customers are precisely alike; each will have unique demands or experience and requires the service in a unique way. For instance, take the case of a restaurant which is a hospitality service. One customer may prefer a crisp Masala Dosa with sambar, while another may prefer soft Masala Dosa with coconut chutney. The cook has to prepare and serve according to their tastes. Thus, the heterogeneity connected with services is largely the result of human interaction between employees and customers and all of the vagaries that accompany it.

Simultaneous Production and Consumption

Most goods are produced first, then sold and consumed while most services are sold first and then produced and consumed simultaneously. For example, an automobile may be manufactured in Mumbai, shipped to Delhi, sold two months later, and used over a period of years. But restaurant services cannot be provided until they have been sold and the dining experience is essentially produced and consumed at the same time. Similarly, in travel services, the ticket has to be bought first and then the travel service has to be availed of. Very often, the customer is present while a service is being produced and thus the views of the customer are taken into account in the production process. For example, in the restaurant when one orders for a cup of coffee, he may ask for strong coffee (more coffee, less milk) without sugar. Here the customer has influenced the production process of coffee. Frequently, customers may interact with one another during the service production process and thus may effect one another's experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the services experience for each other. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

Persishability

Persihability refers to the fact that services cannot be saved or resold or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time or telephone line capacity not used canot be reclaimed and used or resold at a later time. This is in contrast to goods that can be stored or resold another day, or even returned if the consumer is unhappy. It is not easy to reset a bad haircut nor is it possible to transfer it to another consumer. Perishability makes this an unlikely possibility for must services.

7.6.3 Interdependence of Products and Services

Though, the products differ from services in many respects, there are so many interlinkages between services and products in several instances. In fact, services and products complement each other in many cases. Sales prospects of products that are in need of substantial technological support and maintenance will be badly affected if proper arrangement for service is not made. For this reason, the initial contract of sale of a product often includes a service clause. This practice is common in the case of many durable goods. In the case of TV s, cars, refrigerators, washing machines, etc., manufacturers provide free after sale service for a certain period. Similarly, the sale of computer hardware is critically linked to availability of proper servicing and software. Sellers of capital equipment often enter into maintenance contracts with buyers. These are some instances of services complementing products. Similarly products also complement services. For example, an airline cannot exist without airplanes. Without rooms, furniture and kitchen equipment, a hotel cannot provide hospitality service. In the same way, hospitals (health care service) cannot provide services without using tangible products such as operation instruments, testing equipment, medicines, hospital buildings, etc.

There is an increasing recognition of this complementary nature of services and products. Manufacturing based industries (such as automobiles and computers) are recognizing the role of service in improving the competitiveness of a product. In many industries providing quality service is no longer simply an option. The quick pace of developing technologies makes it difficult to gain strategic competitive advantage through physical products alone. Customers not only expect high quality goods, but also expect high levels of service along with them. Companies are realizing the need to focus on service to keep pace with rising customer expectations and to compete effectively. Similarly, various services sectors are depending on quality products to improve their service quality. Good hospitals use the latest technical and testing equipment, hotels provide well furnished rooms, TV channels use the digital transmission equipment, banks use the A TM equipment, airlines use most comfortable airplanes, etc. Thus, continuous product improvement and service improvement are simultaneously going on in many sectors.

Michael Porter in his book, 'The Coinpetitive Advantage of Nations' identified three distinct links between manufacturing and services as explained below:

i) **Buyer/supplier Relationship:** Many service industries have come into existence through the de-integration of service activities by manufacturing firms. An automobile manufacturer may outsource number of service activities like transportation, warehousing, marketing research, legal services, education and training of its employees, information processing etc. Service industries depend a lot on manufacturing firms for a significant share of their sales.

ii) **Services Tied to the Sale of Manufactured Goods:** Sale of a wide variety of manufactured goods creates demand for associated services. The sale of consumer durables require ongoing need for servicing, sale of computers leads to demand for training services and after sales services, exports of any .

inannfactured goods would require sale of insurance, financial services and transport services.

iii) **Manufactured Goods Tied to the Sale of Services:** This link is reverse of the previous one. The sale of certain services leads to demand for manufactured goods, for example, sale of engineering or management consulting from a nation can lead to demand for equipment and other associated manufactured goods from that nation. Also provision of a service requires a lot of manufactured goods.

7.7 SERVICE CLASSIFICATION

A large number of classification schemes for services have been developed to provide strategic insights in managing them. Utilizing different bases, these schemes allow us to understand the nature of the service act, the relationship between service organization and its customers, the nature of service demand and the attributes of a service product. Let us discuss the schemes briefly.

1) The Nature of the Service Act

Using the two dimensions of tangibility of the service act and to whom services are directed at, Lovelock classified services according to whether services are directed at people or possessions, at minds, physical possessions or assets. Table 7.1 will help you understand this classification scheme.

Table 7.1

Nature of the Service Act	Services Directed At	
Tangible Action	**People**	**Possession**
	Services directed at peoples bodies Healthcare, Salons, Restaurants, Transportation	**Directed at goods, Physical possessions** Transportation Laundry/Dry cleaning Lawn care
Intangible Action	**Services directed at peoples minds** Education Broadcasting Information Museums	**Services directed at intangible assets** Banking Legal Services Insurance Accounting

2) Relationship between Service Organisation and Customers

In the service sector both institutional and individual customers may enter into continuing relationships with service providers and opt for receiving services continually. Services can therefore be classified on the basis of whether the nature of the relationship is continuous or intermittent and whether a consumer needs to get into a membership relationship with the service organisation to access and utilize the service.

Table 7.2 : Services and Customer Relationships

Type of Relationship		
Nature of Delivery	**Membership**	**Non-Membership**
Continuous	Insurance Education Banking	Police protection Public highway
Discrete	Theatre seat subscription Commuter tickets	Car rental, Pay telephone Restaurant

3) How the Service is Delivered

Lovelock has used two issues of number of delivery sites (whether single or multiple) and the method of delivery to classify services in a 2 x 3 matrix. The implications here are that the convenience of receiving the service is the lowest when the customer has to come to the service and must use a single or specific outlets. As his options multiply, the degree of convenience can go on rising, from being able to choose desirable sites, to getting access at convenient locations. (Table 7.3)

Table 7.3: Service Delivery Modes

Service Delivery Modes		
Nature of Interaction between Customer and Organisation	**Availabiiity of Outlets**	
	Single site	**Multiple site**
Customer goes to service organisation	Theatre	Bus Service Fast Food Chain
Service organisation comes to the customer	Lawn care Pest control	Mail delivery Emergency auto repair
Customer and organisation transact business at arms length	Credit cards Local TV station	Telephone company Broadcasting

4. Proportion of Tangibility and Intangibility

Using the characteristic of intangibility of services, Shostack proposed that all goods and services can be placed on a tangibility intangibility continuum, with services clustering towards low to high intangibility. Accordingly, services can be classified as those with a low intangibility content (a fast food restaurant) and apure service, having very high intangibility content (education, consultancy, medical advice).

5) Service Inputs

Services based on this criterion have been classified as primarily equipment based or primarily people based service depending upon which input is primary applied to get service outputs. The equipment based services can be further classified according to whether they are fully automated, or consist of equipment monitored by unskilled persons (lift operators, delivery van personnel) or need the presence of skilled personnel to man the equipment (quality control, diagnostic services).

6) Contact between the Consumer and the Service Provider

Services also differ in the extent of contact that needs to be maintained between the User and Provider, the marketing implication in this case being the necessity of physical presence of the provider as well as need to manage desired quality of personnel in case of high contact services. On this basis all services can be classified

as high contact or low contact services, depending upon the time a user needs to spend with the service organisation/provider in order to utilize/acquire the service. Examples of low contact services are telecommunications, drycleaning and broadcasting while high contact services are education, hospitality, theatre performance.

7) Profit and Public vs Private Services

Service can also be classified on the basis of whether they are primarily directed at public at large or primarily at individuals. The public services include utilities and infrastructural services like transport and communication. They also include services provided by the state for public welfare like hospitals, educational and vocational institution, parks and museums etc. The private services on the other hand include the whole gamut of services designed for and consumed by customers as individuals e.g., restaurants, beauty care and medical advice. The implications underlined by this classification manifest themselves In issues regarding planning and design of service for public vs. private consumption. Involved here are issues of process, volume and distribution of services when they are designed as public services. Services have also been classified by Kotler as services designed for profit and non profit services, depending upon the marketing objectives to be pursued in the exchange of services.

7.8 CHALLENGES IN MARKETING OF SERVICES

The traditional marketing mix is composed of the 4 Ps viz., product price, promotion and place (distribution). These elements appear as core decision variables in any marketing plan. All these four variables are interrelated, and there is an optional mix of the four factors for a given market segment at a given point of time. Though, conceptually marketing of services is no different from marketing of products, the strategies of the 4 P's, however, require some modifications when applied to services.

Because of the significant differences between goods and services, marketers of services face some distinctive challenges. Such challenges revolve around understanding customer needs and expectations, and the efforts to keep promises made to customers. The basic differences between products and services, and the associated marketing implications, are shown in Table 7.4

Table 7.4 : Differences between Products and Services, and the Associated Marketing Challenges

Goods	Services	Resulting Marketing Implications
Tangible	Intangible	Services cannot be inventoried Services cannot be patented Services cannot be readily displayed or communicated Pricing is difficult
Standardised	Heterogeneous	Service delivery and customer satisfaction depend on employee actions Service quality depends on many uncontrollable factors There is no sure knowledge that the service delivered matches what was planned and promoted
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction Customers affect each other

Nonperishable	Perishable	Employees affect the service outcome Decentralisation may be essential Mass production is difficult It is difficult to synclironize supply and demand Services cannot be returned or resold

Source: Valarie A. Zeithaml and May Jo Bitner.Services Marketing,McGraw Hill,New York.

Intangibility presents several marketing challenges. As services cannot be inventoried, fluctuations in demand are often difficult to manage. For example, there may bc very huge demand for hotel accommodation in Shimla in summer as against low demand in winter. Yet, hotel owners have the same number of rooms to sell year-round. Services cannot be patented legally. Hence, new service concepts can be easily copied by competitors. Since services cannot be readily displayed or easily cotnmunicated to customers, it may be difficult for consumers to assess the quality of a particular service before use. Decisions about what to include in advertising and other promotional materials may prove challenging, as is pricing. The actual costs of a unit of service are hard to determine and the price/quality relationship is complex. As services are not tangible, it is not possible to provide samples and significant physical evidence. The physical evidence of services includes all of the tangible representations of the service such as brochures, letterhead, business cards, report formats, and equipment. These physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organisation's purpose, the intended market segment, and the nature of the service.

The *intangibility* of tlie service reduces the marketers' ability to provide samples, This makes communicating the service offer much more difficult than communicating a product offer. Brochures or catalogues explaining services often must show a "proxy" for the service in order to provide the prospective customer with tangible clues. A cleaning service for instance, can show apicture of an individual removing trash or cleaning a window or even a photograph of a clean room. However, the picture will not fully succeed in communicating the quality of service.

As services are *heterogeneous,* ensuring consistent service quality is challenging. Further, quality depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the presence (or absence) of other customer, and the level of demand for the service etc. Because of these complicating factors, a marketer is often not sure whether the service is being delivered as originally planned and promoted. An associated problem is that, unlike in the case of products there is no objective yardstick to determine the quality of a service. Laboratory tests can establish the quality of a product but the quality of service is dependent on the perception of the customer.

Since services often are produced and consumed simultaneously, mass production is difficult, if not impossible. Moreover, it is not usually possible to gain significant economies of scale through centralised production. Usually operations need to be relatively decentralised so that the service can be delivered directly to the consumer in convenient locations. Also because of simultaneous production and consumption, the customer is involved in and observes the production process thereby affecting (positively or negatively) tlie outcome of the service transaction. Some customers can cause problems in the service setting, leading to lowering of customer satisfaction. For example, in a cinema theatre, one person misbehaving with other audience can create negative experience to the entire audience and may become a dissuading factor next time.

As services are *perishable,* they cannot be stored for future consumption. Hence, demand forecasting and planning for capacity utilisation are challenging decision

areas for marketers. The fact that services cannot typically be returned or resold implies the necessity for strong recovery strategies when things do go wrong. For example, while a bad hair cut cannot be returned, the hairdresser should have strategies for recovering the customer's goodwill when such a problem occurs. The hair dresser may, by refunding the charges collected from the customer, perhaps, recover part of the goodwill lost.

The ***role*** of *personnel* deserves special consideration in the marketing of services. Because the customer interface is intense, proper provisions need to be made for training personnel. Major emphasis must be placed on appearance and behaviour. Most of the time, the person delivering the service (rather than the service itself) will communicate the spirit, values and attitudes of service provider. All human actors who playa part in service delivery influence the buyer's perceptions and provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, their attitudes and the way they interact with customers, all influence the customer's perceptions ofthe service. Therefore, the role of service provider or contact person is very important.

The areas of pricing and financing require special attention. Because services cannot be stored, much greater responsiveness to demand fluctuation must exist and therefore, much greater pricing flexibility must be maintained. Hotels offering discounts in room tariff during off seasons is part of the flexible pricing strategy. The intangibility of services also makes financing more difficult. Financial institutions are less willing to provide financial support to services than for products. This is because of three reasons: (a) the value of services is more difficult to assess, (b) service performance is more difficult to monitor, and (c) services are difficult to repossess. Therefore, receiving payments may be much more troublesome for a financier in the case of services than products. This poses a challenge to the marketer of services in procuring finances.

Usually, short and direct channels are required for marketing of services. Closeness to the customer is of overriding importance in order to correctly understand what the customers want, to reach them fast with minimum cost, to monitor the flow and utilization of services, and to assist the construct in obtaining a truly tailor made service.

7.9 THE SERVICES MARKETING MIX

The unique characteristics of services make the traditional 4 P marketing mix seem inadequate. Careful management of these 4 Ps - Product, Price, Place and Promotion though essential, are not sufficient for successful marketing of services. Further the strategies for the four Ps require some modification while applying to services.

Since services are produced and consumed simultaneously, the contact personnel or the service delivery personnel become extremely important. It is during these encounters of service providers and customers i.e. the process - on which a lot depends with regards to the final outcome as well as the overall perception of the service by the customer. The actual physical surroundings during these encounters have also a substantial bearing on the service delivery. All these facts lead to the development of an expanded marketing mix with three new P's added'to the traditional mix. These are:

- People — All human actors who playa part in service delivery and thus influence the buyer's perceptions; namely, the firms's personnel, the customer, and other customers in the service environment

- Physical evidence — The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.
- Process — The actual procedures, mechanisms and flow of activities by which the service is delivered - the service delivery and operating system

Because of the simultaneous production, delivery and consumption of services, the nature of marketing departments and marketing functions become quite different as compared to goods. The marketing function - all activities which influence the preferences of the consumers towards the offerings - is mainly handled by marketing departments in case of goods. Here as far as consumers are concerned, marketing departments (the organisational entity which is responsible for some, but not necessarily all marketing activities performed by the firm) can plan and implement most of the marlteting activities i.e., the marketing department is able to control almost the total marketing function. In the service sector the situation is entirely different. A traditional mnrkcting department in services can only control a minor part of the marketing function. Usually, it does not have the necessary authority to manage the buyer/seller interaction. The marketing department therefore, cannot plan and implement activities pertaining to interactive marketing function.

Therefore the marketing function, which is a key function in service sector require a special treatment. The total marketing in services include three different types of marketing as shown in Figure 7.3 .

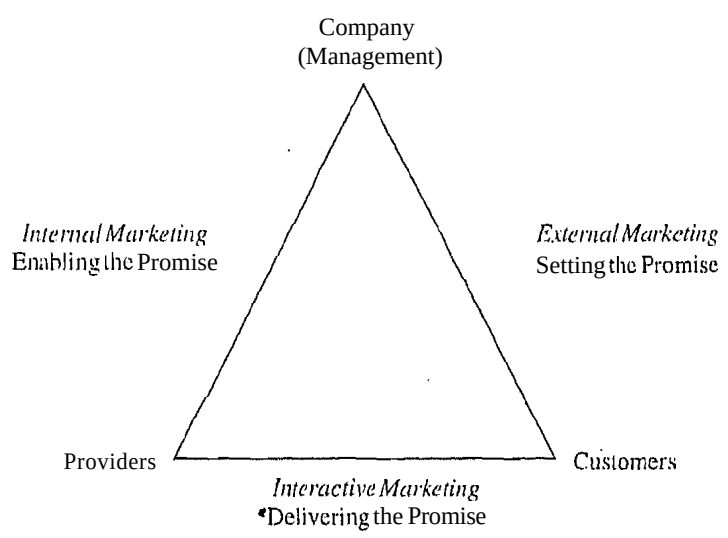

Figure 7.3 : The *Services* Marketing *Triangle*

As can be seen from the triangle, the traditional marketing mix and marketing departments basically address to 'External Marketing' only. However, all three sides are critical to successful services marketing and the triangle can't be supported in the absence of anyone of the sides.

Check Your Progress D

I. Identify the characteristics that make services different from products.

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2. Explain the interdependence between products and services.

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3. List out the elements of expanded marketing mix for services.

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4. State whether the following statements are true or false.
   i) Most services are first produced, then sold and consumed
   ii) Healthcare service is an intangible action directed at physical possessions.
   iii) As services are perishable, they cannot be stored for future consumption.
   iv) The people element of services marketing mix refers to the firm's personnel only.
   v) As per services marketing triangle, marketing of services includes three different types of marketing.

7.10 LETUSSUMUP

A product is any offering to the market for possible purchase or use. It encompasses physical objects, services, places, organisations, persons and ideas. Essential attributes of a product include tangibility or intangibility, associated with some attributes for being identified and accepted, should have exchange value and should provide satisfaction.

Products may be classified in many ways. Based on the user status, products can be classified as Consumer goods and industrial goods. The goods which are bought by the households or ultimate consumers for their non-business personal consumption are called consumer goods. Consumer goods may be further classified as convenience goods, shopping goods and speciality goods. Industrial goods are those products which are meant to be used by the buyers as inputs in production of other products. They can be classified into raw materials, fabricating materials and parts, installations, accessory equipment, and operating supplies.

We can also categorise tangible products into durable and non-durable depending upon the period during which a product is used by a consumer. Services are those separately identifiable, intangible activities which provide want satisfaction, and which are necessarily tied to the sale of a product or another service.

A product line is an expression generally used to describe a group of closely related products. Product mix refers to all the products offered by a firm and has different components, viz. width, length, depth and consistency. Product line strategies are: 1) contraction of product line, 2) expansion of product line, 3) changes in quality standards, 4) changes in model and style of an existing product, 5) product differentiation, 6) product positioning, and 7) new products.

The term service is rather general in concept and includes a wide variety of services. Services are essentially performances. Marketing of services needs a different treatment because of the unique characteristics of services that distinguish them from

products. These characteristics are intangibility, heterogeneity, inseparatability and perishability. Due to these characteristics services marketing includes three additional marketing mix elements viz. People, Physical Evidence and Process.

7.11 KEYWORDS

Consumer Goods: Products bought by individuals or households for their personal nonbusiness use.

Contraction of Product Line: Dropping a product from the product line.

Convenience Goods: A class of consumer goods that people buy frequently with the least possible time and effort.

Durable Goods: Tangible products with a long life and lasting many years of active service to owners.

Fabricating Materials and,Parts: A category of industrial goods that have received some processing and will undergo further processing as they become a part of another product.

Industrial Goods: Products bought by individuals or institutions for use in the production of other goods or for rendering some service.

Installation: Manufactured industrial products that directly affect the scale of operation of an industrial user.

Non-durable Goods: Tangible products that are consumed in one go or last a few uses and get depleted on consumption.

People: All human actors who playa part in service delivery and thus influence the buyer's perceptions; namely, the firm's personnel, the customer, and other customers in the service environment.

Physical Evidence: The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

Process: The actual procedures, mechanisms and flow of activities by which the service is delivered - the service delivery and operating system.

Product: A set of tangible and intangible attributes including packaging, colour, price, manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs.

Product Item: An individual product offered by a seller.

Product Line: Refers to'a group of closely related products offered by a particular seller.

Product Mix: Refers to all the products offered by a particular seller.

Raw Materials: A class of industrial goods that have not been processed in any way and that will become part of another product.

Services: Essentially intangible and separately identifiable activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.

Shopping Goods: A class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc. of alternative products in competing stores.

Speciality Goods: A class of consumer goods with perceived unique characteristics such that consumers are willing to spend special effort to buy them.

7.12 ANSWERS TO CHECKYOUR PROGRESS

A. 2 i) False ii) True iii) False iv) True

B. 4 i) Durable ii) Non-durable iii) Non-durable iv) Durable v) Durable vi) Non-durable

C. 6 i) d ii) c iii) e iv) a v) b

D. 4 i) False ii) False iii) True iv) False v) True

7.13 TERMINAL QUESTIONS

1) What is a product? Explain the three distinct levels of a product.

2) Distinguish between consumer goods and industrial goods giving suitable examples.

3) Taking any organisation you are familiar with as an example, explain the terms product item, product line and product mix.

4) What do you understand by the term service? How do services differ from products?

5) Explain the different classification schemes for services giving suitable examples.

6) Briefly discuss the expanded services marketing mix and the services marketing triangle.

UNIT 8 PRODUCT DEVELOPMENT AND PRODUCT LIFE CYCLE

Sturucture

8.0 Objectives

8.1 Introduction

8.2 Product Innovation - Meaning, Types and Importance

8.3 Product Development Process

- 8.3.1 Idea Generation
- 8.3.2 Idea Screening
- 8.3.3 Concept Development
- 8.3.4 Business Analysis
- 8.3.5 Engineering Development and Marketing Strategy Development
- 8.3.6 Test Marketing
- 8.3.7 Commercialisation

8.4 Characteristics of Product Development

8.5 Why New Products Fail?

8.6 Product Life Cycle (PLC)

8.7 Implications of PLC on Marketing Strategies

8.8 Let Us Sum Up

8.9 Key Words

8.10 Answers to Check Your Progress

8.11 Terminal Questions

8.0 OBJECTIVES

After studying this unit, you should be able to:

- understand the meaning, types and importance of product innovation
- visualize the step-by-step process involved in product development
- draw lessons for the success of a firm in product development exercise.
- analyse and evaluate the possible factors contributing to failure of new products
- understand the concept of product life cycle and its implications, at different stages, on marketing strategies

8.1 INTRODUCTION

The rate at which "new" products are introduced in the market, has, in recent years, accelerated and simultaneously "old" products are disappearing from the market very fast. Why is it happening? Why should companies spend resources on introducing so called "new" products with such high frequency? What are the risks involved in product development? How do the companies decide that the time has come for introducing "new" products? Is any scientific process involved in developing a "new" product? This unit seeks to address these issues.