After studying this chapter, you should be able to...

1. Recognize the challenges associated with the growth of a small business.
2. Explain the role of innovation role in a company’s growth.
3. Identify stages in the product life cycle and the new product development process.
4. Describe the building of a firm’s total product.
5. Understand product strategy and the alternatives available to small businesses.
After studying this chapter, you should be able to...

6. Discuss how the legal environment affects product decisions.

7. Explain the importance of supply chain management and the major considerations in structuring a distribution channel.
To Grow or Not to Grow

• Growth sufficient to maintain the status quo is a goal of some entrepreneurs.

• Growing a business too quickly can be stressful for the small firm.

• A “growth trap” may occur when a firm’s growth soaks up cash faster than it can be generated.

• Growth also puts pressure on a small firm’s personnel.
Innovation: A Path to Growth

• Competitive Advantage and Innovation
  - Innovation and entrepreneurship often go hand-in-hand.
  - Coming up with and perfecting new products or services is often not easy.
  - The risk of failure increases when innovation is the goal.
  - Innovation is a means by which a firm can sustain its competitive advantage.
Reducing the Risk of Failure While Innovating

• Base innovative efforts on your experience.
• Focus on overlooked products or services.
• Be sure there is a market for the product or service you are hoping to create.
• Pursue innovation that customers will perceive as adding value to their lives.
• Focus on new ideas leading to more than one product or service.
• Raise sufficient capital to launch the new product or service.
• **Sustainable Competitive Advantage**
  - A value-creating position that endures over time
    - Is difficult to imitate
    - Creates high barriers to market entry
    - Can be patented or copyrighted
    - Is renewable at higher performance capabilities

• **Stages in the Competitive Advantage Life Cycle**
  - Develop: invest resources
  - Deploy: boost performance
  - Decline: competitors overcome advantage
The Competitive Advantage Life Cycle

- Stage 1: Develop
- Stage 2: Deploy
- Stage 3: Decline

Sales vs. Time
The Product Life Cycle and New Product Development

• Product Life Cycle

- A detailed picture of what happens to a specific product’s sales and profits over time
  - Promotion, pricing, and distribution policies must be adjusted to the product’s position on the curve.
  - It is important to revitalize product lines before they lose their commercial potential.
  - The life cycle of a product rises then falls—innovation is necessary for a firm’s survival.
The Product Life Cycle

- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

**Sales Curve**

**Profit Curve**

Dollars vs. Time
New Product Development Process

Idea Accumulation

Business Analysis

New Product Development

Product Testing
New Product Development Process

• Idea Accumulation

➢ Increasing the number of ideas under consideration

❖ Sources for ideas:

  – Sales, engineering, or other personnel within the firm
  – Government-owned patents
  – Privately owned patents listed by the U.S. Patent Office
  – Small companies available for acquisition or merger
  – Competitors’ products and advertising
  – Requests and suggestions from customers
• Business Analysis

- Testing to determine if an idea can be profitable.

- Key factors to consider:
  1. Product’s relationship to the existing product line
  2. Cost of development and introduction
  3. Available personnel and facilities
  4. Competition and market acceptance
New Product Development Process (cont’d)

• Development of the Physical Product
  ➢ Branding, packaging, pricing, and promotion

• Product Testing
  ➢ Proving the product design through consumer reaction to the product.
Building the Total Product

• **Branding**
  - A verbal and/or symbolic means of identifying a product.

• **Brand Name**
  - A brand that can be spoken (tangible)

• **Brand Mark**
  - A brand that cannot be spoken (tangible)

• **Brand Image**
  - Symbolic (Intangible)
Components of a Brand Identity

- Brand Identity
  - Intangible: Brand Image
  - Tangible: Lou's Lures
  - Tangible: Brandmark
• Rules for Naming a Product:
  1. Select a name that is easy to pronounce and remember.
  2. Choose a descriptive name.
  3. Use a name that is eligible for legal protection.
  4. Select a name with promotional properties.
  5. Select a name that can be used on several product lines of a similar nature.
Building the Total Product (cont’d)

• Designing a Logo:

1. Be simple.
2. Design for visibility
3. Leave it open to interpretation.
4. Be relentlessly consistent.
5. Recognize the importance of logo design.
7. Don’t expect miracles.
Protecting the Product Offering

• Trademark
  ➢ An identifying feature used to distinguish a manufacturer’s product

• Service Mark
  ➢ A legal term indicating the exclusive right to use a brand to identify a service.

Vinnie’s Vegetarian Villa™
• Packaging
  ➢ Color, design, and protection for the product.

• Labeling
  ➢ Shows the brand and informs the consumer about product features, correct use, and care.

• Warranties
  ➢ A promise that the product will perform at a certain level or meet certain standards.
    ✷ Implied and written warranties
    ✷ Policy considerations: Cost, service capability, competitive practices, customer perceptions, legal implications
Product Strategy

• Product Strategy
  ➢ The way the product component of the marketing mix is used to achieve a firm’s objectives.
    ❖ Product item
      – The lowest common denominator in the product mix—the individual item
    ❖ Product line
      – The sum of the related individual product items
    ❖ Product mix
      – A firm’s total product lines
    ❖ Product mix consistency
      – The similarity of product lines in a product mix
### 15.4 Product Lines and Product Mix for 180s LLC

<table>
<thead>
<tr>
<th>DEPTH OF PRODUCT LINES</th>
<th>BREADTH OF PRODUCT MIX</th>
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<tbody>
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<td><strong>College Sports Apparel</strong></td>
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<td><strong>Scarves</strong></td>
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Product Strategy (cont’d)

• Product

➢ A total bundle of satisfaction—a service, a good, or both—offered to consumers in an exchange transaction.

❖ Includes both the main element (physical product or core service) and complementary components (features).
15.5 Services Marketing Versus Goods Marketing

**Characteristics**

- **Pure Services Marketing**
  - Intangible Offerings
  - Occur at the same time
  - Less standardization
  - Greater perishability

- **Pure Goods Marketing**
  - Tangible Offerings
  - Occur at different times
  - More standardization
  - Less perishability

**Hybrid Services/Goods Marketing**
Product Strategy Options

• Alternatives
  - One product/one market
  - One product/multiple markets
  - Modified product/one market
  - Modified product/multiple markets
  - Multiple products/one market
  - Multiple products/multiple markets

• Options
  - Convince nonusers in the targeted market to become customers
  - Persuade current customers to use more of the product
  - Alert current customers to new uses for the product
Product Marketing Strategy

Product Mix

One Product

Modified Product

Multiple Products

Strategy Alternatives

(1) One product/one market

(2) One product/multiple markets

(3) Modified product/one market

(4) Modified product/multiple markets

(5) Multiple products/one market

(6) Multiple products/multiple markets

Target Market(s)

One Market

Multiple Markets

Key to Strategy Alternatives

(1) One product/one market

(2) One product/multiple markets

(3) Modified product/one market

(4) Modified product/multiple markets

(5) Multiple products/one market

(6) Multiple products/multiple markets

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• Consumer Protection
  ➢ Labeling
    ❖ Nutrition Labeling and Education Act of 1990
      – Listing of contents
      – Proper care and use
  ➢ Product safety
    ❖ Consumer Product Safety Act of 1972
      – Consumer Product Safety Commission
    ❖ Nutrition Labeling and Education Act of 1990
      – Packaging
      – Use instructions
      – Disposal
The Legal Environment (cont’d)

• Trademark Protection
  ➢ The Lanham Trademark Act grants exclusive rights of use of a registered non-generic name, symbol or other mark to identify a product or service.
    ✤ Trademarks are researched and then registered with the U.S. Patent and Trademark Office (PTO).
  ➢ Loss of rights
    ✤ If the mark enters into use as a generic term.
    ✤ If the mark is not labeled with the symbols tm or® or the phrase “Registered in the U.S. Patent and Trademark Office.”
The Legal Environment (cont’d)

• Patent Protection
  - The registered, exclusive right of an inventor to make, use, or sell and invention.
  - Utility patent
    - Registered protection for a new process or product’s function
  - Design patent
    - Registered protection for the appearance of a product and its inseparable parts
  - Plant patent
    - Registered protection for any distinct and new variety of plant
• Copyright
  - The exclusive right of a creator to reproduce, publish, perform, display, or sell his or her works.
  - Copyright notice
    - Copyright symbol ©
    - Year the work was published
    - Copyright owner’s name

• Trade Dress
  - Are elements of a firm’s distinctive image (“look”)
  - Can be protected under trademark law
Supply Chain Management

• Supply Chain Management
  - Integrates and coordinates the means by which a firm creates or develops a product or service and delivers it to customers.

• Distribution
  - Physically moving products and establishing intermediary relationships to support such movement.
Channels of Distribution

**Direct Channel**
- Producer
- Consumers or Industrial User

**Indirect Channels**
- **Retailer Channel**
  - Producer
  - Wholesalers
  - Retailers or Industrial Distributor
  - Consumers or Industrial User

- **Wholesaler Channel**
  - Producer
  - Wholesalers
  - Retailers or Industrial Distributor
  - Consumers or Industrial User

- **Agent/Broker Channel**
  - Producer
  - Agents or Brokers
  - Wholesalers
  - Retailers or Industrial Distributor
  - Consumers or Industrial User
Supply Chain Management (cont’d)

• Physical Distribution (Logistics)
  ➢ The activities of distribution involved in the physical relocation of products.

• Channel of Distribution
  ➢ The system of relationships established to guide the movement of a product.
Channels in Supply Chain Management

Channels of Distribution

- Direct Channel
- Indirect Channel
- Dual Distribution
Supply Chain Management (cont’d)

• Functions of Intermediaries
  ➢ Perform the marketing function better.
  ➢ Provide efficient distribution of the product.

• Types of Intermediaries
  ➢ Merchant middlemen
    ✷ Take title to the goods they distribute.
  ➢ Agents/brokers
    ✷ Do not take title to the goods they distribute.
Building Distribution Channels

Factors in Building a Distribution Channel

- Costs to Establish Channel
- Market Coverage of Channel
- Control of Distribution
The Scope of Physical Distribution

Transportation—which mode to use?

- Common carriers
- Contract carriers
- Private carriers
Scope of Physical Distribution (cont’d)

• Storage
  ➢ Lack of storage space is a common problem.

• Materials Handling
  ➢ Protecting the firm’s output during warehousing.

• Specifying Responsibility for Delivery Terms
  ➢ Paying freight costs—F.O.B. origin, freight collect.
  ➢ Selecting the carriers.
  ➢ Bearing the risk of damage.
  ➢ Selecting the modes of transport.
• Logistics Companies

- Firms which specialize in providing cost-effective transportation, storage, and distribution services to small companies.
  - Trucking
  - Packaging
  - Warehousing

- Third-Party Logistics Firm (3PL)
  - A firm that provides transportation and distribution services to companies that prefer to focus their efforts on other facets of their business.
<table>
<thead>
<tr>
<th>Key Terms</th>
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