



Rapping Up Products

Nature of Product/Service Management

Objectives:

-  Describe the product/service management function.
-  Discuss the phases of product/service management.



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Think about the last product you purchased. Was it a new app for your smartphone? An oil change for your car? A candy bar on your way out of a store? Have you ever thought about who's responsible for those products and what their job duties entail?



Managing products and services effectively is vital to the success of any business or organization. Products don't just appear on the market overnight—

- The polio vaccine took over 10 years to develop.
- Google's search engine (the one you probably use every day!) took over three years to develop.
- Taco Bell spent years researching, experimenting, and testing to bring the Doritos Locos tacos to customers. (Read "Deep inside Taco Bell's Doritos Locos Taco" by Austin Carr to learn more about the product's development: <http://www.fastcompany.com/3008346/deep-inside-taco-bells-doritos-locos-taco>).

And that just describes the *beginning* of a product's life! Products also must be well managed through the stages of growth, maturity, and decline. Learn more about product/service management and how it applies to your business.

You Can Manage: The Product/Service Management Function

No matter what type of business you have, managing your products and services well is a *must* if you want to be successful. **Product/Service management** is a marketing function that involves obtaining, developing, maintaining, and improving a product or service mix in response to market opportunities. To understand product/service management better, you should start with a clear understanding of what products and services are.

Products and services

A **product** can be either a good or a service. A **good** is a tangible object that can be manufactured and produced for resale, along with its associated benefits. Examples of goods include a desk chair, a truck, or a rose bush for your garden. A benefit associated with a desk chair would be having a comfortable place to sit while you work. A **service** is an intangible activity performed by other people in exchange for payment, along with its associated benefits. Examples of services include a manicure, an internet connection, or an employee search conducted by an outside agency that your business hires. A benefit associated with an internet connection is being able to check your email any time.

There are two different types of services a business may **perform**. The first is a **product-related** service, which means that the service is attached to some sort of tangible good. Product-related services may include instruction, maintenance, delivery, credit, or repair. For instance, the connection service you receive from a company such as Verizon when you purchase one of their smartphones is a product-related service. You may even pay one price for the entire good-service package, known as a **bundle**.

The other type of service is a **pure service**, which means that it is not attached to any tangible good. Instead, the service itself is the business's primary product. Banks and insurance companies are good examples of businesses that offer pure services.

Managing products and services

Now that we have a clear understanding of what products and services are, we can think more about product/service management and what it means. Every business participates in product/service management, whether its employees realize it or not! In a big company, an entire product/service management department may exist, but even in a small business, the owner or manager is constantly making decisions about what to offer to customers in the product/service mix.

Product/Service management involves many activities, such as:

- Discovering new-product opportunities
- Developing marketing plans and strategies for products
- Coordinating the product mix
- Sustaining successful products as long as possible
- Reassessing products that are not meeting expectations
- Eliminating products that have become liabilities



Products may go by several different names, so don't get confused. In non-profit organizations, for instance, products are often called "programs." Think of your local YMCA. Its classes and activities may be called programs, but remember—these are the YMCA's products and services!

As you can see, product/service management is a process that follows products throughout their entire life cycles. It involves thorough, systematic decision making at every stage.

Factor it in

Product/Service management tasks are affected and influenced by many factors, both within the company and outside it. Businesses must consider the following when managing products and services:

Customer needs and wants. Because customers are actually buying **benefits**, not just products or services, product/service management should be approached from the customer's point of view. Too often, companies focus solely on the product itself without taking into consideration the benefits that appeal to the consumer. For instance, how valuable is the most technologically advanced tablet if it's too complicated for the average consumer to operate? It's a challenge to keep customer needs and wants in mind at all times, especially when they tend to shift frequently; however, it's absolutely necessary for successful product/service management. Companies often use **market research** to aid in gathering information about customer needs and wants.

Want to learn more about how companies conduct market research? In "Understand Your Market," you can read how the U.S. Small Business Administration recommends businesses do their market research: <http://www.sba.gov/content/do-your-market-research>.



▲ Companies must keep the customer's point of view in mind at all times. They often use market research to gather information about customer needs and wants.

Company goals and strategies. These are internal factors that affect product/service management. Each business has its own unique set of marketing goals and strategies that will influence what it expects from its product/service mix. Let's say your business wants to maintain its market share in a certain category. This may involve modifying or improving an existing product so that it continues to compete well with similar products on the market. As company goals and strategies change, product/service management decisions may change as well.

Costs and available resources. These two factors are especially important during the new-product development phase. A company may have a great idea for a new product, but it may not be cost effective if it is too expensive to develop and produce, or if the needed materials are too scarce to obtain affordably. Part of product/service management is making sure that the business will get a return on its investment in a product and will make a profit. Therefore, product/service managers must take costs and resources into account when making decisions.

Competition. Product/Service managers must constantly be aware of what's going on around them and what other companies are doing. With certain popular products or services, competition can be very fierce. In some cases, a company may want to introduce a new product to better compete or to gain market share. In other cases, a company may want to modify an existing product so the competition doesn't make it obsolete. Many product/service management decisions will be made as a result of a business's competitors' efforts.



▲ Part of product/service management is making sure that the business will get a return on its investment in a product and will make a profit.

The product itself. Characteristics of the business's products and services themselves have an influence on product/service management decisions. Product/Service managers must take into account all the aspects of a product that will provide benefits or appeal to customers. If the product is an improvement over similar products already on the market, for instance, its managers will integrate that benefit into all product/service management decisions and marketing strategies.

Government regulations. Many products must meet certain government standards or be produced under government guidelines. Government regulations also control some of the information that companies must provide to customers, such as the nutritional content of packaged food items. Laws may also affect products and services in terms of issues like warranties, construction and safety standards, packaging, etc. Product/Service managers must be sure they are adhering to governmental controls with every decision they make.

Stage in the product life cycle. Products move through the product life cycle (introduction, growth, maturity, and decline) at different rates and require unique marketing strategies. These stages of the life cycle are the basis for product/service planning and management. Product/Service managers understand how and why competition changes from one stage of the life cycle to another, and they make decisions based on what will be most effective for a product at its current stage.



Coca-Cola is one company that changed its product to meet government standards in the state of California. Read the following article, "Coca-Cola Modifies Caramel Color to Avoid Cancer Warning Label" by Allison Aubrey: <http://www.npr.org/blogs/thesalt/2012/03/07/148075310/coca-cola-modifies-caramel-color-to-avoid-cancer-warning-label>. What decisions did Coca-Cola have to make? Would you have done the same thing if you worked in product/services management for Coca-Cola?

Business and economic trends. Product/Service managers must operate within the framework of the current economy. If companies are forced to downsize, they may have to drop certain products or make changes in how they're produced. There may be fewer employees to work on product/service management. A merger or acquisition, however, may bring new products, resources, or employees to the company. Product/Service managers will learn to be flexible and "go with the flow" in these types of situations.

Importance of product/service management

There are many benefits to successful product/service management. Think about it:

- A business's sales and profits will improve if it is offering the products and services its target market wants and needs.
- When a business's sales and profits improve, its market share and ability to beat the competition may also improve.
- When a business takes the time to develop and market appropriate products, it can develop many new customers (which can also translate into greater sales, profits, and market share).
- The better managed a business's products and services are, the less exposure the business has to financial risk from failed products, lost sales, and inability to meet the competition.



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▲ *If companies are forced to cut jobs, they may also have to drop products or make some changes in how they're produced.*

Role of product/service management in marketing

Product/Service management is a specific marketing function, and it plays a significant role in a business's overall marketing success. This function affects marketing in the following ways:

It affects positioning. Positioning is a strategy in which a business creates a certain image or impression of a product in the minds of consumers. Let's say you are the product manager for a new luxury car. The decisions you make and the strategies you form will determine the car's image for your target market. They will affect not only the success of your product, but the marketing success of your entire company.

It improves product success. You may come up with a great product, but without proper management, you will never achieve success in trying to sell it. This principle applies to any product, whether it is a local, one-person babysitting service or a snack food sold all over the globe. Each product or service must be approached with a plan for marketing success.

It gives a product an image. A **corporate brand** is all the combined impressions and experiences associated with a company. Consider a few famous corporate brands and your own associations with them—think Apple, Coca-Cola, or McDonald's. What identities have these businesses' product/service managers been able to achieve through their marketing decisions and strategies? Branding is an important marketing activity that relies heavily on good product/service management decisions.



▲ If you were the product manager for a luxury car, what decisions could you make to form the car's image for your target market? You would probably try to create an upscale image by showing wealthy people driving the car.

“Benefits of Corporate Branding—Video Infographic” from InfoGraphics Design explains why corporate brands are so important: <http://www.youtube.com/watch?v=XoZ3ST3L3E4>.

Whose job is it, anyway?

As you already know, the size of a business will influence how it handles product/service management. Big firms usually have more time and money to spend on product/service management, but it is no less important for small businesses to execute it well. The employees responsible for product/service management may go by many different job titles. Here are just a few:

- Product manager
- Director of product management
- Brand manager
- Project manager
- Product coordinator
- Marketing manager
- Product line manager

In some businesses, product/service management responsibilities are broken up between different managers or departments. For example, one committee or department may be in charge of generating new-product ideas, while another department oversees developing the products, while yet another department or manager is responsible for marketing the product and managing it for the rest of its life cycle. In other businesses, one employee or group of employees may be responsible for all product/service management activities.



▲ *The employees responsible for product/service management may go by many different job titles. In some businesses, product/service management responsibilities are broken up between different managers and departments.*

Summary

Product/Service management is a marketing function that involves obtaining, developing, maintaining, and improving a product or service mix in response to market opportunities. It is influenced by customer needs and wants, company goals and strategies, costs and available resources, competition, the product itself, government regulations, stage in the product life cycle, and business and economic trends. Product/Service management plays an important role in marketing because it affects positioning, improves product success, gives a product an identity, and enhances the company's image.

TOTAL RECALL

1. What is product/service management?
2. Describe products, goods, and services.
3. What factors affect product/service management?
4. What are the benefits of product/service management?
5. What role does product/service management play in marketing?

THE GRAY ZONE

Janna and her friend Leah both work for telecommunications companies. One night over dinner, they discuss some new product ideas they think would be successful in their industry. Janna has a great idea that Leah loves. The next week, Leah presents the idea to her manager, who says he will consider taking it to the next new-product committee meeting. Was Leah's action ethical? Do you consider this to be "stealing" the idea from her friend?

It's Just a Phase

Every business handles product/service management a little differently, but there are three main phases of the management process you should be aware of. They are new-product development, monitoring of existing products, and elimination of weak products.

Developing new products

Companies spend a great deal of money, time, and effort developing new products to offer their customers. New products may be goods or services that:

- Have never been offered on the market before
- Have been modified in some way
- Will be presented or distributed in a new manner

As you can see, some products are entirely new to the market, but even old products can be considered “new” again in this process. An established soft drink may have a “new, improved” formula or taste. A cosmetic, such as lipstick, that has been on the market for several years may receive completely new packaging or design.

Businesses have several different ways to obtain new products. They may purchase them from another person or company, **license** them from another person or company (meaning they buy permission to sell the product but do not actually own it), acquire them by purchasing another company, or develop them internally. Let’s examine the basic steps of internal product development. Keep in mind that an idea or potential product may be discarded at any point in the process if the company or the product/service managers decide it does not make a positive contribution to the product/service mix or will not make a profit.



▲ Even old products can be considered new again! The Old Spice products in this ad aren't new, but they've been repackaged to appeal to younger customers.

Generate ideas. Ideas for new products can come from a variety of sources—employees, customers, sales representatives, retailers, friends, family members, the Internet—you name it! It may take hundreds of ideas to come up with a good one for new-product development. Some companies have product-management committees that meet regularly to brainstorm new-product ideas. Each idea must then go through a screening process.

Screen ideas. The purpose of screening new-product ideas is to identify any that will potentially be unworkable. For this reason, top-level managers from many different departments (finance, engineering, distribution, etc.) are often involved in this step. An idea may seem great on paper, but in reality it may be too expensive, it may have been tried unsuccessfully in the past, or it may not fit well with company goals and objectives.

Test the product concept. If an idea makes it past the screening process, it is ready to be tested. This means getting feedback from potential customers about the potential product. Concept testing should answer the questions:

- Is our target market interested in this product?
- Is it the right time to introduce this product?
- What benefits does our target market expect from this product?

Concept testing may involve a simple customer questionnaire or, in some cases, an actual **prototype** of the product. It's important to be very selective at this stage in the new-product development process because to take a product any further requires a much more significant financial investment from the company.

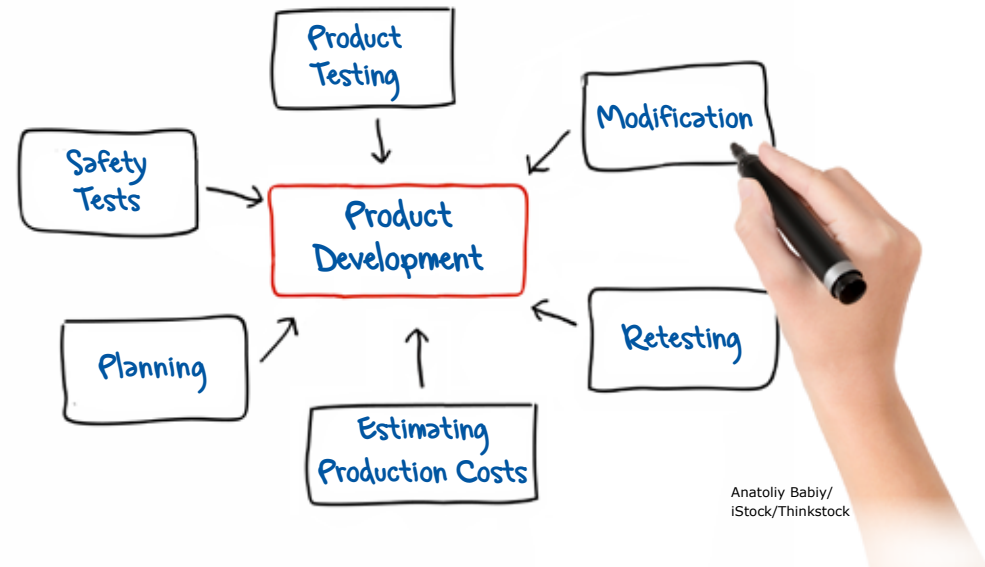


▲ *An idea might seem great on paper, but that doesn't mean it will be successful. That's why businesses screen new-product ideas to identify any that will potentially be unworkable.*

Conduct a business or feasibility analysis. This is an in-depth analysis that takes many factors into account, such as demand, costs, competition, required investment, and potential profit. Again, managers from many different departments may contribute to this step in the process. Think of the feasibility analysis as a much more detailed and serious screening step. It may take months to complete. If the company decides at this time that the product is feasible, it will take further steps to develop it.

Develop the product. Product development is a lengthy step that could take months or even years to finish. During this step, a working model of the product is tested, modified, and retested, until the company decides it's ready to hit the market. The cost of production is estimated, and plans for packaging, labeling, brand name, promotion, and distribution are made. Government regulations may also require safety tests to be completed during this step to prevent unsafe products from entering the market. Development can be a very expensive stage.

Test market the product. Test marketing involves introducing the product to a limited market to see how it will be accepted. It serves to guide product/service managers in planning actual marketing strategies. The product is tried out in specific locations to get customers' and retailers' reactions before starting a wider distribution. Modifications in the product can be completed as a result of the test market, or the product may be dropped at this point if test market results are particularly poor.



▲ There are many components that make up the product development stage.


Not all new products need test marketing. In some cases, it may not be used because it's costly, delays entry into the full market, may not give an accurate picture of performance, provides no guarantee of actual success, and gives competitors an opportunity to copy the idea while it is being tested.

Commercialization. If a product has made it through every other stage in the new-product development process, it is finally ready for **commercialization**. This is the point at which the product goes into full-scale production, a marketing plan is put in place, service and sales training are conducted, and the product's life cycle begins.

Monitoring existing products

Existing products are those that are already on the market. It's important for product/service managers to keep a close eye on existing products and monitor them in terms of sales, profit, market share, and how well they're meeting company goals and expectations.

Product/Service managers may decide an existing product is performing well and needs no modifications. Or, they may choose to add new features or change the design or packaging in some way. Making changes in an existing product often follows steps similar to those used in new-product development. Managers may reposition the product by changing the marketing strategy. Or, they may decide to eliminate the product altogether.



This video, "Columbus, Ohio:
Test Market of the U.S.A."
from CBS News, shows what
test marketing is like for the food industry:
<http://www.cbsnews.com/news/columbus-ohio-test-market-of-the-usa/>.
How does test marketing influence
the menu of fast food giant Wendy's?

iStock/Thinkstock



Eliminating weak products

This is also known as **product discontinuation**. Weak products are those with declining sales and profitability. Product discontinuation must be planned carefully to prevent damaging the company's image. Some products can be dropped immediately, but some are withdrawn from the market over a period of time. Some companies eliminate a weak product slowly so that customers have time to find replacements, or they may continue to provide service for a discontinued product for a certain period of time to retain customer goodwill. Product/Service managers *must* weed out weak products, however, because of their costs to the company. Remember, product/service management is all about making the most profitable product-mix decisions possible.

The article "18 Fast Food Menu Items That Were Sensational Failures" by Ashley Lutz explains why some fast food products were discontinued: <http://www.businessinsider.com/worst-discontinued-fast-food-menu-items-2013-7?op=1>. Has one of your favorite products ever been discontinued? How do you think the company's product/service manager decided to discontinue that product?

Summary

The three main phases of product/service management are new-product development, monitoring of existing products, and elimination of weak products. New-product development involves idea generation and screening, concept testing, feasibility analysis, product development, test marketing, and commercialization.

TOTAL RECALL

1. What are the three main phases of product/service management?
2. How do businesses obtain new products?
3. What are the steps of internal product development?
4. What decisions do product/service managers make when monitoring existing products?
5. Why would a company discontinue a product? How do product/service managers complete this task?

Make It Pay!

The courses offered by schools are these educational institutions' products.
Who is responsible for product/service management at your educational institution?
What internal and external factors are currently influencing product/service management decisions? How does this function affect the institution's overall marketing success?
What are the institution's current activities in terms of new-product development, monitoring of existing products, and elimination of weak products?