

Mix & Match

Nature of the Product Mix



Walk the line

Why your favorite product disappears

When products become cannibals



So What?



Let's say you have a 1,500-word research paper due tomorrow in your English literature class. What would happen if you had no ideas, no plan, no outline in place for writing it? It would be a mess! The same principle holds true for businesses that don't put time, research, and planning into the products they offer for sale. An appropriate product mix is essential for a company's success.

Objectives:

- A** Explain the nature of the product mix.
- B** Describe types of product-mix strategies.

Mix It Up

Every business must decide what products to offer. It's one of the most important decisions a company ever makes. By watching the market carefully and changing their products accordingly, businesses meet customers' changing needs and wants.

The product mix

The particular assortment of products a business offers to meet its market's needs and its company's goals is its **product mix**. The typical product mix of a large grocery store contains about 15,000 products. Although this may seem quite large, it is small in comparison to the product mixes of certain manufacturers who may make hundreds of thousands of products.



Remember that products can come in the form of goods, services, and ideas. Naturally, a typical product mix will vary from industry to industry. You certainly wouldn't expect zoos and hospitals to offer the same products! Product mixes can also vary for businesses within the same industry, depending on each business's target market, size, and finances. To better understand product mix, let's consider its two basic ingredients—product items and product lines.

- **Product item**

Each individual good, service, or idea that a business offers for sale is a **product item**. Product items are distinguished by size, style, brand name, price, color, materials, or any feature that makes one item different from another. Some examples of product items are:

- A two-liter bottle of Diet Coke
- A travel-agent certification course
- A Louis Vuitton handbag
- A fishing license for the state of Montana
- A bottle of Softsoap body wash



Mix & Match



- **Product line**

A **product line** is a group of related product items. The product items in a product line are somewhat like the members of a family in their relationship to each other; they often resemble each other in some way. For example, the product items Kraft, Inc. sells in the United States belong to one of four product lines—beverage, cheese and dairy, snack foods/confectionary, and convenience foods/cereals. Each of the products in these product lines is similar in some way to the other products in the line. Another example of a product line would be all of a bank's consumer financial products—home loans, checking accounts, savings accounts, etc.

A company may offer any number of product lines and define them in a variety of ways. Product lines may be classified according to:

- **Product class**
The product line consists of products with similar characteristics or functions. For example, Colgate-Palmolive Company includes in its oral-care product line toothbrushes, toothpaste, floss, and mouthwash, all products related to dental hygiene.
- **Customer group**
The product line consists of products that appeal to a certain target market. 3M Corporation has a consumer-and-office product line that contains items (such as Scotch tape and Post-It notes) that appeal to all kinds of consumers, as well as healthcare and industrial product lines that appeal to commercial customers only.
- **Price and/or quality**—items in these product lines are in the same price bracket or of the same quality level.

- **Distribution method**
These product lines are set up according to the outlets through which they are marketed. Starbucks, for example, sells coffee, snacks, and other merchandise in its coffee houses, and it also has a line of ice cream and ready-to-drink beverages that are available in grocery stores.



Product mix dimensions

Most businesses use three dimensions to describe their product mixes. These are width, depth, and consistency.

- **Width**

This term, also called breadth, refers to the number of product lines a company carries. It is usually referred to as being narrow or broad.

The business with a **narrow product mix** offers a limited number of product lines. Having a narrow product mix allows a company to specialize effectively, to produce efficiently, and to concentrate its marketing efforts on its few product lines.

The business with a **broad product mix** offers many product lines. Discount stores are good examples of businesses with broad product lines since they carry everything from shampoo to tires to DVDs. This provides them with many opportunities to make sales, to appeal to customers with a variety of needs, and to promote one-stop shopping. In addition, it often reduces the costs of the goods they buy for resale.

- **Depth**

This term, also called length, refers to the number of products and the assortment of sizes, colors, and models offered in a company's product lines. This dimension is usually considered to be deep or shallow.

The business with a **deep product mix** offers a great many items within the product line. This allows the business to meet the needs of a variety of consumers, to use a range of prices, and to compete effectively.



The business with a **shallow product mix** (also called a short product mix) offers few items within the product line. Limiting its product offerings helps a business control costs and ensure a profit.

- **Consistency**

Consistency refers to how closely a company's product lines are related in terms of:

- End use
- Methods of distribution and production
- Target market(s)
- Price range

If they are closely related on any one of these factors, the product mix is said to be consistent. On the other hand, if the lines are not closely related, the product mix is considered inconsistent.

Importance of product mix

As you know, choosing its product mix is one of the most important decisions that a company must make. If a business's product mix is made up of items that no one wants to buy, the business will surely fail! If a product mix is too wide, a company's resources may be spread too thin to serve all its customers effectively. On the other hand, if the product mix is too narrow, a company may not be providing enough to meet customers' needs.

Some specific ways in which product mix decisions are important to a business include:

- *Appealing to the target market*
Each business must determine the target markets for its products. Items in the product mix should be chosen on the basis of their ability to satisfy the needs and wants of those customers.
- *Helping to present a consistent company image*
The product mix can help to create and sustain the company's desired image in the eyes of its customers. A wide and shallow product mix can present a discount image, while a narrow and deep product mix will seem more exclusive. Wal-Mart's wide and shallow mix of drugstore items is part of its national discount image, while Tiffany's narrow and deep product mix of fine jewelry is part of its prestigious image.

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The Gray Zone

Due to rising fuel costs and dwindling cash reserves, a budget airline needs to drop several of its destinations so it can stay afloat. This is part of a contraction product-mix strategy. So as not to alarm customers or investors, the company doesn't make the announcement about the dropped destinations until the day before the flights stop. Customers can use their previously-purchased tickets as credit, but their scheduled flights will not take place as planned. This leaves many customers stranded, frazzled, and angry. What do you think about the airline's actions? Did it have a responsibility to let customers know about the

product-mix contraction? Or was it OK to keep it a secret to protect the company and its objectives?





- *Affecting profitability*

If the product mix is made up of items whose sales provide profits to the company, then the company can buy supplies, pay workers, attract investors, pay expenses, and increase production. An inappropriate product mix can reduce a company's profits.

- *Helping deal with competition*

A business can add to its product mix to match the offerings of competitors. It might deepen its assortment in a particular product line to persuade customers that it offers the best selection. Or, it may use the consistency of its product mix in dealing with competition, stressing to customers the convenience of satisfying all their needs in one place. This could apply to a sporting goods store that offers everything a tennis player needs—tennis balls, rackets, shoes, visors, etc.



Summary

Every business must determine its product mix—the particular assortment of products it offers to meet its market's needs. Product mix contains product items and product lines. Product lines may be classified according to product class, customer group, price and/or quality, and distribution method. Product mixes can be narrow or broad, deep or shallow, and consistent or inconsistent. An appropriate product mix helps a company appeal to a target market, present a consistent image, sustain profitability, and deal with competition.



1. What is a product mix?
2. What is a product item?
3. What is a product line?
4. How do companies classify product lines?
5. Describe the three product-mix dimensions.
6. Why are product-mix decisions so important?

Let's Talk Strategy



Have you ever visited a business because you heard that it now carried something you wanted to buy? Or, have you ever shopped for a favorite product and found that a business no longer carried it? These things happen because businesses are constantly watching and adjusting their product mixes to meet customers' changing needs and wants.

The ways in which businesses handle, or manage, their product mixes are known as **product-mix strategies**. There are a variety of product-mix strategies that businesses can use to meet the needs of their target markets and to satisfy their own objectives. Let's examine each of them and the reasons why a business uses them.

Expansion

A business may expand its product mix by adding additional product items or lines. There are a number of reasons why a business may choose an **expansion** product-mix strategy, including:

- To satisfy customers' desire for variety
Customers want options. By expanding their product mix, businesses satisfy that desire.
- To offer customers complementary products
The business may wish to offer customers products that will enhance their other purchases. For example, an electronics store may offer a variety of accessories to complement its line of mobile phones, including protective covers, hands-free headsets, and car chargers.
- To spread risk over a wider area
A business's expansion of its product mix can reduce the impact of loss from an item or line that has a drop in sales or fails completely.
- To appeal to a new market
By adding hybrids to their product mixes, many auto manufacturers have attracted drivers in the environmentally-conscious market.



- To increase sales and profits
Expanding the product mix with successful new items or lines should increase sales. Profits should also increase, unless other factors, such as reduced sales of other lines or increased expenses, prevent that from happening.
- To enhance the company's reputation
When new products are developed, the company may want to add them to its product mix so that it will keep its reputation of offering a complete line of products to its customers. Or, the company may boost its reputation by acquiring another company whose products already have a desirable position in the market.
- To make more efficient use of company facilities
When a company can turn out more products using its existing equipment and raw materials, expanding the product line may be a good strategy.

Expanding the product mix can have disadvantages as well. Adding product items or product lines increases costs of inventory, marketing, transportation, storage, and personnel. If the new products are more complex or sophisticated, the sales staff may require additional training to sell them.

Contraction

Contraction means removing product items or lines from the product mix. Some of the reasons that a business deletes a product from its mix are:

- It has lost its appeal to customers.
There are few products that satisfy customers indefinitely. Most products follow life cycles in which they are introduced, sell well for a time, and then lose their popularity. For example, personal compact-disc players are no longer very popular since the advent of MP3 players.
- It is no longer appropriate to the company's goals.
A business's products should help to achieve its objectives. When a product no longer does that, the company may decide to delete it from the product mix. In some cases, the focus of the business changes, requiring changes in the product mix. A business that has focused on industrial products may want to shift to consumer products, meaning that some of its current products must be dropped to make room for new ones.
- It is no longer profitable.
When a product's sales and profits decline, it can become a financial burden to the company, not only in lost revenue but in the additional time required to promote and to sell it. A weak product can also have a negative impact on company image.
- It conflicts with another product in the mix.
In an effort to satisfy a wide range of customers, some companies create or sell many products in the same product line. Eventually, there may be enough overlap between products that the sales of one product take away sales from another product. This is called **cannibalization**.
- Its production has become a problem.
Companies have become much more aware of the need to conserve raw materials and energy in recent years. Some changes in their product mixes have occurred because the necessary raw materials were in short supply or the energy costs were too high.



- It has become a legal liability.
A manufacturer may be liable for damage to the product's user even when the user did not follow the manufacturer's instructions. In some cases, rather than risk a lawsuit or carry expensive insurance, the company will remove the product from its product mix.

There are several disadvantages to contracting the product mix. It increases market risk—the fewer products or lines a company has, the greater the financial risk to the company if one of them fails. Competitors may also step in to provide the products and draw away customers. Eliminating products may have a negative effect on salespeople who are trying to serve customers loyal to the discontinued products. Product deletion can also damage customer goodwill. If a company expects problems with customers, it may give them advance warning that a product is about to be taken off the market. This gives customers time to find another source or a substitute product.

Alteration

This product-mix strategy involves making changes in the company's products or lines. Products may be completely redesigned or changes may be made in their basic styles, characteristics, packaging, or pricing. There are several reasons why companies choose to alter the products in their product mixes, such as:

- To limit costs
Altering existing products is less expensive than developing a new product and has a greater chance of success. Developing a new product is not only expensive, but the company runs the risk that the new product will fail.
- To keep up with changing consumer preferences
Customers' attitudes toward products change over time. Altering the product in some way can renew customers' interest. For example, cosmetic firms frequently design new packaging to give fresh appeal.
- To compete effectively
- To reach a different target market
In some cases, companies decide to try to appeal to a different market. They may alter product quality to reduce prices and appeal to a different, lower priced market. Or, they may raise the quality level to charge a higher price and appeal to a more exclusive market.
- To reach a larger market
Products may be altered in such a way that they are more useful and thus appeal to a wider segment of the population. The products may be made more convenient to use, more effective, safer, or more versatile. For

example, early food processors did not always do an effective job, were often difficult to clean, and were limited in their uses. These products have been improved to such a degree that the market for them is now much larger.

- To improve products for social good
Product ingredients can be altered to make them better and safer for consumers. Many restaurants and companies, for instance, have removed trans-fats from all their food products.



There are some disadvantages to alteration as a product-mix strategy. If a company chooses to alter an entire line at one time, it can be quite expensive. But, if the company decides to alter the line in stages, competitors have a chance to observe the changes and alter their own products accordingly.

There are also limits to the extent to which alteration can be used. Not all products can be altered, or there may be a limit to the ways in which they can be changed. It is also impossible to predict the success of the altered product. If consumers have been satisfied with the product as it is, they may not continue to buy it if the changes do not appeal to them. If too many new ingredients or components are added to the product, its price may have to be raised higher than the market will bear. Most companies, however, prefer to try alteration before deciding to delete a product or line from the mix.

Trading Up

When a company decides to add a higher priced product or line to its mix, it is using a **trading-up** strategy. This is also sometimes called stretching up or brand leveraging. Some of the reasons why companies use trading up are:

- To enhance company image
- To increase sales of the company's other products
The prestige of the higher priced products or lines often "rubs off" on the lower priced products or lines. Sales may increase because the lower priced items seem to have grown in value by association or because new customers have been drawn to the business by the addition of the higher priced line.
- To attract a new target market
By using trading up, the company is adding products or lines that are more expensive than what it previously offered. These new products should attract a new category of customers who will enlarge the company's market share.

There are a number of disadvantages to the use of trading up. While sales may be generated for the new product or line, sales of established products may decline. If the business uses trading up to enhance its image, the business must be careful that present customers are not lost in the process of gaining new ones. Customers may become confused as to what the company's image is meant to be, or they may refuse to believe that better quality merchandise can be purchased from a business that had formerly sold budget goods.



Trading Down

When a company decides to add a lower priced product or line to its mix, it is using a **trading-down** strategy. This is also sometimes called stretching down. For example, many publishers add a paperback edition of books they have produced in hard cover. Some reasons for trading down include:

- To attract a new target market
By using trading down, the company is adding products or lines that are less expensive than what it previously offered. These items should attract customers who could not afford to buy the more expensive versions.
- To meet the competition
Some companies find the market is better at the lower end, or they add a lower priced product because the competition is about to provide it. They may also have been attacked by the competition at the high end and attempt to counter-attack by shifting to the low end.

The disadvantages of using a trading-down strategy are that the firm's reputation for high quality may be damaged by the addition of a lower quality item to its product mix; consumers may be confused about the new product or line; profits from the cheaper product may be eroded by reduced sales in the more expensive line; dealers may not be willing to add the lower priced product to their offering; and the competition may become stronger at the high end of the market.

Summary

The ways in which businesses manage their product mixes are known as product-mix strategies. There are a variety of product-mix strategies that businesses can use to meet the needs of their target markets and to satisfy their own objectives. They include expansion, contraction, alteration, trading up, and trading down.



1. Why would a company use an expansion product-mix strategy?
2. What are the disadvantages of an expansion strategy?
3. Why would a company use a contraction product-mix strategy?
4. What are the disadvantages of a contraction strategy?
5. Why would a company use an alteration product-mix strategy?
6. What are the disadvantages of an alteration strategy?
7. Why would a company use a trading-up product-mix strategy?
8. What are the disadvantages of a trading-up strategy?
9. Why would a company use a trading-down product-mix strategy?
10. What are the disadvantages of a trading-down strategy?

Make It Pay!

What product-mix strategy is your place of employment currently using? For what reasons has this particular strategy been chosen? Is it working? What disadvantages is the business experiencing by using this strategy?