TOURISM MARKETING

5η Σειρά Διαλέξεων

MBA Tourism Management
Τμήμα Οργάνωσης και Διοίκησης Επιχειρήσεων
ΠΑΝΕΠΙΣTHΜΙΟ ΠΕΙΡΑΙΩΣ

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Las Vegas

- When you think of today's "hottest brands," what names come to mind?

  – Coca- Cola? Nike? Google? Target? Maybe Starbucks?

- Scan the list of hottest brands prepared each year by respected brand consultancy Landor Associates, and you'll find an unlikely regular entry—Las Vegas.

- Most people wouldn't even think of Vegas as a "product," let alone as a brand.

  – it is number two on the list of the nation's hottest brands, behind only Google

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Las Vegas

- Many old-timers still think of Vegas as "Sin City"
  - an anything-goes gambling town built on smoke-filled casinos, bawdy all-girl revues, all-you-can-eat buffets, Elvis impersonators, and no-wait weddings on the Strip

- The new Vegas has reinvented itself as a luxury destination and gaming now accounts for less than half the city's revenues.

- The new Vegas brims with classy resort hotels & casinos, malls filled with luxury goods, first-run entertainment & world-renowned restaurants.

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Las Vegas

- To nearly 40 million visitors each year, the town is more than an assortment of facilities and amenities.
  - Vegas is an emotional connection; a total brand experience
- What is the "Las Vegas experience"? To answer that, the city conducted extensive consumer research.
  - "*We found that* [the Las Vegas experience] *centered on adult freedom*," says the CEO of the Las Vegas Convention and Visitors authority, Rossi Ralenkotter
- Based on these consumer insights, the LVCVA coined a now-familiar catchphrase…
  - "*Only Vegas: What happens here, stays here.*"

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Las Vegas

- In 2003, LVCVA launched an innovative $75 million "*What happens here, stays here*" ad campaign.

- Centerpiece of one of the most successful tourism campaigns in history, the phrase helped transform Las Vegas's image from one of down-and-dirty "*Sin City*" to enticing & luxurious "*Only Vegas*."

- True to the brand's positioning, the award-winning campaign showed the naughty nature of people once they arrive in Las Vegas.

  – LVCVA is still investing heavily in the campaign & recent ads show people in their normal lives after visiting Vegas

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Las Vegas

- Since the "*What happens here*" campaign began, the slogan has become a part of the national vernacular.
  - strongly positioning Las Vegas with potential visitors
  - setting it apart from a list of competing destinations
- Thanks to smart marketing and brand building, Las Vegas really does belong among the ranks of the world's hottest brands, as Vegas tourism is booming.
- As the example shows, marketers must build products & brands that connect with customers.
  - beginning with a deceptively simple question: *What is a product?*

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Definitions

- We define the term product as follows:
  - *"...anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need."*

- Examples of products:
  - a room at the Four Seasons in Toronto
  - a Hawaiian vacation; a vacation package in Bali
  - McDonald's French fries; a catered luncheon
  - a bus tour of historic sites
  - a convention in a modern convention center with group rates in a nearby hotel

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Introduction

- This definition refers to the planned component of the product that the firm offers.
  - the product also includes an unplanned component
- Particularly in hospitality & travel products, which are often heterogeneous, the product the customer receives is not always as management plans.
- Managers of service organizations need to work hard to eliminate unexpected negative surprises and make sure the guests get what they expect.
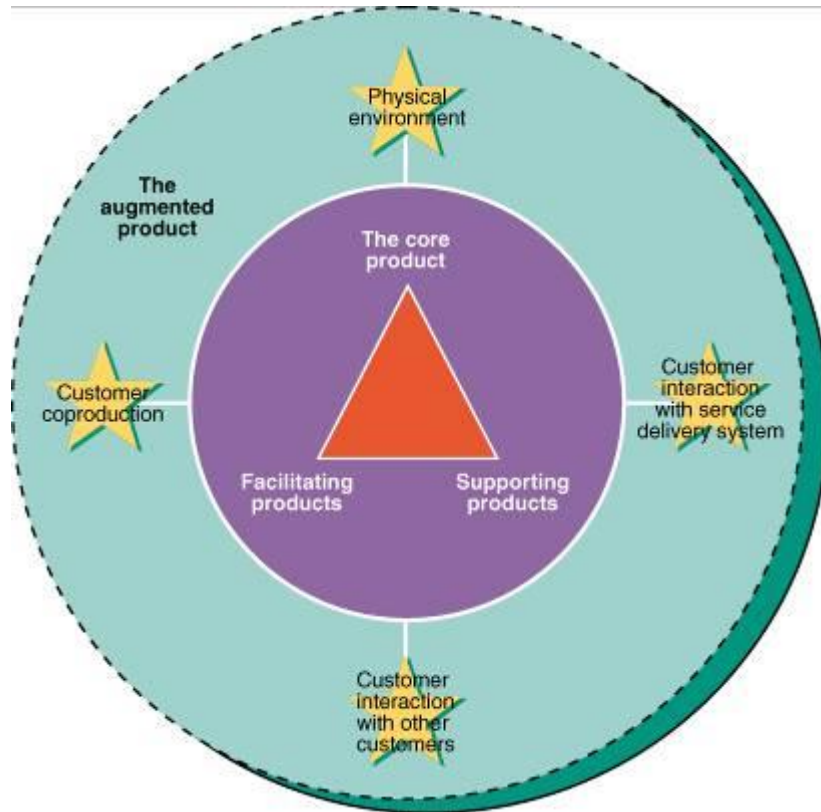
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Introduction

- Hospitality managers need to think about the product on four levels:

  – core product

  – facilitating product

  – supporting product

  – augmented product

Figure 9-1 Product levels. Adapted from C. Gonroos, "Developing the Service Offering— A Source of Competitive Advantage," in *Add Value to Your Service,* ed. *C. Surprenant* *(Chicago: American Marketing Association, 1987), p. 83.*

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Descriptions

- **Core Product** is the most basic level, which answers:
  - what is the buyer really buying?
- **Facilitating Products** are services or goods which must be present for the guest to use the core product.
  - core products require facilitating products but do not require supporting products.
- **Supporting Products** are extra products offered to add value to the core product.
  - and help to differentiate it from the competition

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Augmented Product

- **Augmented Product** includes accessibility, atmosphere, customer participation, interaction with the service organization & with each other.

- The augmented service, combining what is offered with how it is delivered, is an important concept because hospitality & travel services require customer coproduction of the service.

- The augmented product captures the key elements that must be managed when the customer comes to the hotel, restaurant, conference center, etc.

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Augmented Product - Accessibility

- If a product is not accessible it has no value.
  - two barriers to accessibility are hours of operation & lack of knowledge
  - products must be accessible when the guest wants to use them
- The front desk clerk and bell person should make the guest aware of the hotel's services, and providing information about attractions in the city makes the attributes of the city accessible to the guest.

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Augmented Product - Atmosphere

- Atmosphere is appreciated via the senses and can be a customer's reason for choosing an establishment.

- The main **visual** dimensions of atmosphere are color, brightness, size, and shape.

- The main **aural** dimensions of atmosphere are volume and pitch.

- The main **olfactory** dimensions of atmosphere are scent and freshness.

- The main **tactile** dimensions of atmosphere are softness, smoothness, and temperature.

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Augmented Product - Atmosphere

- Atmosphere can affect purchase behavior in at least four ways.

  – atmosphere may serve as an attention-creating medium.

  – as a message-creating medium to potential customers

  – atmosphere may serve as an effect-creating medium

  – environment can be a mood-creating medium

- An environmental psychologist has described environments as high & low load, referring to the information one receives from the environment.

  – bright colors & lights, loud noises, crowds & movement are typical elements of a high-load environment

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Augmented Product - Customer Interaction (Delivery)

- The customer participates in the delivery of most hospitality & travel products, in three phases:
  - *joining, consumption, and detachment*

- In the joining stage, the customer makes the initial inquiry contact.
  - information must be delivered in a professional way
  - the joining phase is often enhanced through sampling

- The consumption phase takes place when the service is consumed.
  - in a restaurant, when the customer is dining
  - in a hotel when an individual is a guest

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Augmented Product - Customer Interaction (*Delivery*)

- The detachment phase is when the customer is through using a product and departs.

  – hotel guests will need to settle accounts, may need a bell person to help with the bags & transportation to the airport

- Managers should think through & then experience the joining, consumption & detachment phases of their guests.

- Thinking through these stages helps management understand how the customer will interact with the service delivery system.

  – resulting in a product designed to fit customer needs

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Augmented Product - Customer Interaction (*Others*)

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- An area drawing interest of hospitality researchers is the interaction of customers with each other.
  - the issue is a serious problem for hotels & resorts

- Hospitality organizations must manage interaction of customers to ensure that some do not negatively affect the experience of others.

- The independent nontour guest consistently objects to the presence of large group-inclusive tours (GITs).
  - magnified if the GIT guests represent a different culture, speak a foreign language, or are from an age group

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Augmented Product - Customer Interaction (*Others*)

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- Many hotels such provide free wine & cheese for guests during a set time period in the evening.
  - these hotels commonly report this act of hospitality has an added benefit of bringing guests together
  - lasting friendships and business deals have resulted
- The free breakfast offered by roadside lodging was modeled after B&Bs, though unlike most B&Bs, there is often little reason to get to know other guests.
- A free breakfast should enhance guest experience, as this is the last moment to ensure guests leave having enjoyed their final time at the property.

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Augmented Product - Customers as Employees

- Involving the guest as an employee can increase capacity, improve guest satisfaction & reduce costs.
  - wait staff are not needed when guests help themselves

- Processes given to the customer to perform can be a win-win situation for the customer *and* the business.

- Self-service technologies (SSTs) are a rapidly growing means for increasing customer coproduction in food-service experiences.

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Introduction

- A *brand* is a name, term, sign, symbol, design, or a combination of these elements intended to identify the goods or services of a seller and differentiate them from competitors.

- Some analysts see brands as the major enduring asset of a company, outlasting products & facilities.
  - brands are powerful assets that must be carefully developed and managed

- Most national brands in the hospitality industry are less than forty years old.
  - branding has become a powerful force in the industry

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Description

- A brand name is the part of a brand that can be vocalized.
  - Disneyland, Hilton, Carnival Cruise & Outback
- A brand mark is the part of a brand that can be recognized but is not utterable, such as a symbol, design, or distinctive coloring or lettering.
  - McDonald's golden arches and Hilton Hotel's
- A *trademark* is a brand or part of a brand given legal protection.
  - it protects the seller's exclusive rights to use the brand name or brand mark

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Importance

- An important question to companies…
  - *what does the brand stand for in the customer's mind?*
- Brands are increasingly important to tourist destinations even if they are not registered as such.
- Interestingly, most seem to depict objectives:
  - the Big Apple, New York City
  - a kiwi, New Zealand
  - a cowboy, Wyoming
  - the Beefeaters, London
  - the Eiffel Tower, Paris

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Value

- Brands are among a company's most valuable assets and smart companies today realize that capitalizing on their brands is important.

  – they know brands are more than just products & services

- Brands are also what the company does, and more importantly, what the company is.

  – a critical component of what a company stands for, it implies trust, consistency & a defined set of expectations

- The strongest brands in the world own a place in the customer's mind, and when they are mentioned almost everyone thinks of the same things

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Value

- If we look at the value of a brand as a percentage of market capitalization, some brands are very valuable.
  - Starbucks, Disney & McDonald's are estimated to be worth billions of dollars
- The concept of branding is about communicating values, mission, and vision of the company to the employees and customers.

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The Role of Brands

- Brands identify the source or maker of a product and allow consumers to assign responsibility for its performance to a particular company.
  - consumers may evaluate an identical product differently depending on how it is branded
- Consumer learn about brands via past experiences with the product and its marketing program.
  - finding which brands satisfy their needs & which do not
- As consumers become more complicated, rushed & time starved, ability of a brand to simplify decision making and reduce risk is invaluable.

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The Role of Brands

- A brand offers the legal protection for unique features or aspects of the product and can be protected through registered trademarks

- Trade dress, the design of a restaurant or hotel, can be protected through copyright & proprietary design.

- These intellectual property rights ensure the firm can safely invest in the brand & reap the benefits of a valuable asset.

- Brands signal a certain level of quality so satisfied buyers can easily choose the product again.

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The Role of Brands

- Brand loyalty provides predictability & security of demand for the firm, and creates barriers to entry that make it difficult for other firms to enter the market.

- Loyalty also can translate into customer willingness to pay a higher price—up to 25% more.

- While competitors may duplicate products of brands other than their own, they cannot easily match lasting impressions left by years of product experience and marketing activity.

  - in this sense, branding can be a powerful means to secure a competitive advantage

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The Scope of Branding

- Branding is endowing products & services with the power of a brand and is all about creating differences between products.

- While firms provide the impetus to brand creations through marketing programs and other activities, ultimately a brand resides in the minds of consumers.
  - it is a perceptual entity rooted in reality but reflecting perceptions and idiosyncrasies of consumers

- Marketers teach consumers "who" the product is.
  - by giving it a name & other elements to identify it
  - telling what a product does & why consumers should care

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The Scope of Branding

- Marketers can apply branding virtually anywhere a consumer has choice.
  - restaurants, hotels, catering services, airlines, tourist destinations & even chefs have their own brands
- Colonial Williamsburg was the first successful geographic brand, established seventy years ago.
  - the first license to use the "Williamsburg" brand was awarded to Wedgewood for a line of the fine china
  - it now includes items like historically accurate paint by Sherwin Williams and comforter covers Pine Cone Hill

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Defining Brand Equity

- Brand equity is the added value endowed on products & services, and may be reflected in the way people think, feel, and act with respect to the brand.
  - as well prices, market share & profitability
- Marketers and researchers use various perspectives to study brand equity.
- *Customer-based* approaches view it from the perspective of what customers have seen, read, heard, learned, thought, and felt about the brand over time
  - the differential effect that brand knowledge has on consumer response to the marketing of that brand

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Defining Brand Equity

- A brand has positive customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is identified than when it is not identified.

- A brand has negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances.

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Defining Brand Equity

- Stronger brands lead to greater revenue.

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Marketing Advantages of Strong Brands
Improved perceptions of product performance
Greater loyalty
Less vulnerability to competitive marketing actions
Less vulnerability to marketing crises
Larger margins
More inelastic consumer response to price increases
More elastic consumer response to price decreases
Greater cooperation and support from suppliers
Greater support from marketing intermediaries
Increased marketing communications effectiveness
Brand extension opportunities

Table 9-1 Marketing Advantages of Strong Brands

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Defining Brand Equity

- The challenge for marketers in building a strong brand is ensuring customers receive the right experiences with products, services & marketing programs to create the desired brand knowledge.

- Consumer knowledge is what drives the differences that manifest themselves in brand equity.

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Brand Equity as a Bridge

- Marketers should think of all marketing dollars spent on products & services each year as investments in consumer brand knowledge.
  - quality of the investment is the critical factor
  - not necessarily quantity beyond some threshold amount
- True value & future prospects of a brand lies with consumers, their knowledge about the brand, and likely response to marketing activity as a result of this knowledge.
  - understanding consumer brand knowledge is important, as it is the foundation of brand equity

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Multi-Branding

- The hospitality industry has largely depended on single brands & locations such as Burger King, McDonald's, Hilton & Hyatt.

  - traditional retailers commonly offer multi-branding

- Food courts in malls & airports offer multi-brand restaurants in a single brand location where patrons use tables in a common area.

- Unlike food courts, where restaurants are operated by individual proprietors, multi-branding features different brands owned by a single company under a common roof.

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Multi-Branding - YUM!

- YUM! brands is the world's largest restaurant company with over 34,000 outlets in 100 countries & $9.5 billion sales in 2006.
  - worldwide YUM! has 900,000 employees
- It has the following brands: A&W, Kentucky Fried Chicken, Long John Silvers, Pizza Hut, Taco Bell.
- YUM! Reports that each time it combines brands in a unit, sales have increased 30 percent.
- The major downside to multi-branding is complexity of operating different brands in a single restaurant.

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Co-Branding

- Similar to multi-branding with two or more brands but with different ownership.
  - these may or may not be operated by a single proprietor
- Another form is two entirely different products that may have common ownership operating together.
  - Jack in the Box & Quick Stuff convenience stores
- Quick Stuff convenience stores are built adjacent to a full-size Jack in the Box restaurant and a branded fuel station.
  - each part of the co-branded concept is operated by the same company

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Co-Branding - Growth Factors

- Several factors would appear to offer opportunities for growth in multi-branding and co-branding:

  - **Limited & Costly Locations** - great locations are increasingly difficult to find, and real estate has escalated

  - **Travel Cost** - it makes economic sense for customers and restaurant supervisors to travel to one convenient location.

  - **Available Personnel** - as complexity & cost of acquiring and retaining good managers & employees continues to escalate, using fewer of them makes economic sense.

  - **Customer Satisfaction** - multiproduct offerings satisfy multisegments, especially for groups such as families

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Introduction

- A company has to be good at developing new products and good at managing them in the face of changing tastes, technologies & competition.

- A product is born, passes through several phases & eventually dies as younger products come along that better serve consumer needs.

- The product life cycle presents two major challenges.
  - because all products eventually decline, a firm must find new products to replace aging ones
  - a firm must understand how its products age and change marketing strategies as products pass through the stages

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Introduction

- All hospitality companies & tourist destinations must be alert to trends and ready to try new products.
  - one expert estimates that half of profits of all companies in the US come from products that didn't exist 10 years ago
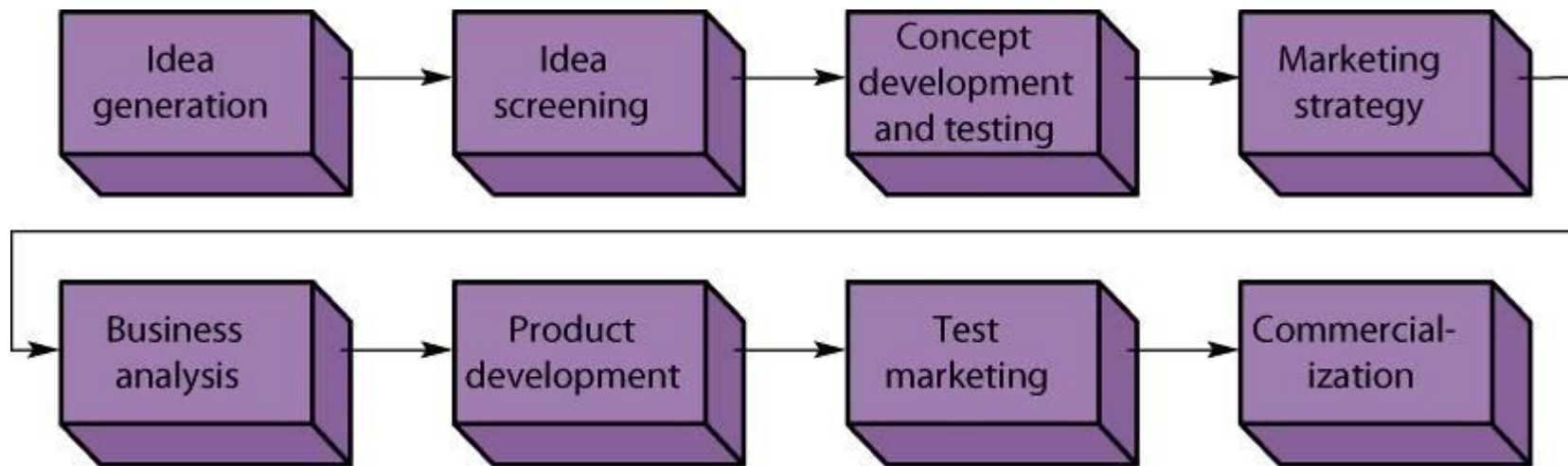
Figure 9-2 Major Stages in Product Development

Obtaining New Products

- A company can obtain new products in two ways.

- One is by acquisition—buying a company, a patent, or a license to produce someone else's product.

  - as development/introduction costs of major new products climbs, many companies decide to acquire existing brands

- A company can obtain new products through new product development by setting up its own research and development department.

  - original products, product improvements & modifications, and new brands the firm develops through its own research and development

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Obtaining New Products

- Max Schnallinger, involved in the development of 200 restaurants, claims 9 of 10 restaurants fail.

- Why do so many new products fail?

  – an executive might push a favorite idea despite poor market research findings

  – if a good idea, market size may have been overestimated

  – the product was not designed as well as it should have

  – it has been incorrectly positioned, priced too high, or advertised poorly

  – costs of product development are higher, or competitors fight back more than expected

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Idea Generation

- New product development starts with idea generation, the systematic search for new ideas.
  - the search should be systematic rather than haphazard

- The company should carefully define the new product development strategy, and start with what products and markets to emphasize.

- It should also state what the company wants from its new products, whether it is high cash flow, market share, or some other objective.

- To obtain a flow of new product ideas, the company must tap several idea sources.

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Idea Generation - Awareness of External Environment

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- All members of the hospitality industry are highly dependent on the external environment.
  - recession, inflation, economic growth, terrorists, aging populations & other factors all directly affect this industry
  - ideas for new products should come from familiarity with what is happening in the external world

- Hotel security is of foremost importance, particularly to single women and other segments.
  - a study of 930 hotel guests revealed a high acceptance of certain security measures
  - guests under 40 said they would pay more for added security, including a first-aid kit in the room

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Idea Generation - Internal Sources

- One study found that more than 55 % of all new product ideas come from within the company.
  - new ideas can come via formal research & development
  - brainstorm sessions also produce new product ideas
  - salespeople & guest-contact employees are good sources because they are in daily contact with customers
  - managers look for new ideas when they visit other restaurants or hotels
  - employees who care about their jobs do the same thing

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Idea Generation - Customers

- Almost 28 % of all new product ideas come from watching and listening to customers.
  - consumer needs and wants can be examined through consumer surveys
  - a company can analyze customer questions & complaints to find new products that better solve consumer problems
  - management or salespeople can meet with customers to obtain suggestions
  - managers gain insight into guest needs by walking around the hotel or restaurant and talking with customers
  - consumers often create new products on their own

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Idea Generation - Competitors

- About 27 % of new product ideas come from analyzing competitors' products.
  - many companies buy competing new products, see how they are made, analyze sales & decide if they should bring out new products of their own
  - company can watch competitors' ads & communications to obtain clues about new products.
  - one can pick up ideas from other markets.
- When taking a competitor's idea, one should be able to do it at least as well as the originator.
  - customers compare the copy with the original, and if the comparison is negative, the product suffers

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Idea Generation - Competitors

- Many successful hospitality products have been copied by international entrepreneurs.
  - often, the copy product is of inferior quality & may create a poor reputation for the product class
  - when the original company enters the market it must overcome a negative image
- In other cases, the foreign company may develop a product that is so successful that it sets the standard for its product class.
  - restaurant chain Pollo Campero of Central America has become the standard against which competitors such as KFC are compared

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Idea Generation - Distributors and Suppliers

- Distributors are close to the market & can pass along information about consumer problems & new product possibilities.

- Suppliers can tell about new concepts, techniques & materials that can be used to develop new products.
  - they can also tell which food products are moving in competitive restaurants & new products ordered by hotels

- Hospitality suites are often sponsored by distributors and suppliers at industry trade shows & conferences.
  - visit these suites for information about trends & competitive strategies and meet important contacts

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Idea Generation - Other Sources

- Other idea sources include:
  - trade magazines
  - shows & seminars
  - government agencies
  - new product consultants
  - advertising agencies & marketing research firms
  - university & commercial laboratories; inventors

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Idea Screening

- Idea generation creates a large number of ideas, and the succeeding stages reduce the number of ideas.
  - the first such stage is idea screening to spot good ideas & drop poor ones as quickly as possible
  - most companies require executives to submit new ideas on a standard form to be reviewed by a committee

- Product development costs rise greatly in later stages, so the company wants to proceed only with ideas that will turn into profitable products.

- The screening stage is the appropriate time to review carefully the question of product line compatibility.

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Idea Screening

- How will the product assist us to:
    - fulfill our mission?
    - meet corporate objectives?
    - meet property objectives?
    - protect and promote our core business?
    - protect and please our key customers?
    - better use existing resources?
    - support and enhance existing product lines?

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Concept Development and Testing

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- Surviving ideas are developed into product concepts.

  - it is important to distinguish between a product idea, a product concept, and a product image

- A **product idea** envisions a possible product that company managers might offer to the market.

- A **product concept** is a detailed version of the idea stated in meaningful consumer terms.

- A **product image** is the way that consumers picture an actual or potential product.

- Customers do not buy a product idea.

  - they buy a product

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The Product Concept - Testing

- A clear product concept greatly assists branding, trade & positioning

  - concept testing occurs within a target group, and may be presented through word or picture descriptions

- Corporate headquarters of major hotel, resort, and restaurant chains do professional concept testing.

- Smaller chains & individual properties often pass over this critical stage & move directly from idea to implementation.

  - in some cases, intuition or luck proves places the company ahead of competition with a winning product

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The Product Concept - Testing

- The history of the hospitality industry has proved that in many cases the idea needed concept testing because the product proved to disastrous mistake.
  - in a tactical product decision, such as a room amenity, there may be little damage from an incorrect decision
  - this is not true of decisions involving heavy capital expenditures, such as a new ship or destination resort
- The expenditure of a few thousand dollars and a few extra months for concept testing might prove invaluable in the long run.

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The Product Concept - Planning Guest Rooms

- Because guest room revenue represents the largest source of income for most hotels, it is important to plan guest rooms carefully.
  - marketers should have the basics of guest room planning
- Architects bear primary design responsibility, but a team of professionals can help avoid problems and maximize potential revenue and guest satisfaction.
  - including interior design specialists, the general manager, owner, and others

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The Product Concept - Planning Guest Rooms

Exhibit 9-1
Guest Room
Planning Objectives

Exhibit 9–1
Guest Room Planning Objectives

Siting and Orientation

- Site the guest room structure to be visible from the road.
- Orient guest rooms to enhance views.
- Assess the relative visual impact and construction costs of various guest room configurations.
- Position the guest room structure to limit its structural impact on the ballroom and other public spaces.
- Consider solar gain; generally north/south exposures are preferable to east/west exposures.

Floor Layout

- Organize the plan so that guest rooms occupy at least 70% of gross floor area.
- Locate elevators and stairs at interior locations to use the maximum possible length of outside sale for guest rooms.
- Develop the corridor plan to facilitate guest and staff circulation.
- Place the elevator lobby in the middle third of the structure.
- Place the service elevator, linen storage, and vending in a central location.
- Plan corridor width at a minimum of 5′ (1.5m), but consider the option of 5′6″ (1.65m).
- Design guest bathrooms back-to-back for plumbing economies.
- Locate handicap-access guest rooms on lower floors and near elevators.

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Marketing Strategy

- The next step is marketing strategy development
  - designing an initial marketing strategy for introducing the product into the market
- The marketing strategy statement consists of three parts.
  - the first part describes the target market, the planned product positioning, and the sales, market share & profit goals for the first few years.
  - the second part outlines the product's planned price, distribution, and marketing budget for the first year
  - the third part describes the planned long-run sales, profit goals, and marketing mix strategy

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Business Analysis

- Business analysis involves a review of the sales, costs, and profit projections to determine whether they satisfy the company's objectives.

- To estimate sales, the company should review sales history, similar products, and survey market opinion.
  - it should estimate min/max sales to learn the range of risk

- After the sales forecast, R&D, operations, finance & accounting, can estimate expected costs and profits.

- The analysis includes the estimated marketing costs.
  - the company uses the sales & cost figures to analyze the new product's financial attractiveness

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Business Analysis

- Many communities view arenas and conference centers as essential products to serve needs of the local populace and attract out-of-town visitors.
  - many have suffered from a lack of sound business analysis
- Political & emotional pressures often prevail in the planning stage.
- In the movie Field of Dreams, it was "*If you build it, they will come.*"
  - this has proven to be untrue for many arenas and convention centers

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Business Analysis

- Visitor products supported by tax money should be developed only after careful and unbiased business analysis, including a professional marketing plan.
  - shown here is a format for the business analysis of a hotel

CORPORATE	Effect on Corporate Image
	Long-Run Compatibility/Cannibalism
	Finance—Millions
	Corporate Form—Ownership, Franchise, Contracts
	Marketing—Compatibility w/other Company Products
	Human Resources
	Others
		PROPERTY—NEW PRODUCT EVALUATION
		
		Objectives
		$ _____
		Volume _____
		Expected Effect on: _____
			Expected Resources Required
			
			$ Capital Investment _____
			Personnel
			  Existing—Full Time Days
			                            $

Figure 9-4 Decision factors for a new lodging product.

Product Development

- If the product concept passes the business test, it moves into product development & a prototype.
  - restaurants can prototype menu items to run as specials
  - hotels build guest room prototypes
- The company hopes to find a prototype that:
  - consumers perceive as having the key features described in the product concept statement
  - performs safely under normal use
  - can be produced for the budgeted costs
- A problem of prototypes is that intangible aspects such as employee performance, cannot be included.

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Test Marketing

- Market testing allows the marketer to gain experience marketing the product, find potential problems, and to learn where more information is needed before the company goes to the expense of full introduction.

  - market testing evaluates the product and the entire marketing program in real market situations

- The product positioning strategy, advertising, distribution, pricing, branding, packaging, and budget levels are evaluated during market testing.

  - market testing results can be used to make better sales & profit forecasts

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Test Marketing

- The amount of market testing needed varies with each new product.

- Testing costs can be enormous & testing takes time.
  - during which competitors may gain an advantage

- When development/introduction costs of the product are low or management is confident the product will succeed, a company may do little testing, or none.

  - minor modifications of current products or copies of successful competitor products might not need testing

- The costs of market tests are high but are often small compared with the costs of making a major mistake.

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Commercialization

- If the company goes ahead with commercialization, it may have to spend several million dollars for advertising & sales promotion alone in the first year.

- Launching a new product, means four decisions:

  – **When?** - is it the right time to introduce the new product?

  – **Where?** - a single location, a region, several regions, the national market, or the international market.

  – **To Whom?** - the company must target its promotion to the best prospect groups.

  – **How?** - an action plan for introducing the product into the selected markets.

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Description

- Large companies such as McDonald's sometimes buy a small restaurant chain such as Chipotle.

  – rather than develop their own new concepts

- They are able to watch the fledgling chain grow, observe its customer base, volume of sales per unit, and how easy or difficult it is to open new stores.

- When they are convinced that the new chain looks like a winner and makes a good strategic fit with their organization, the large company buys the chain.

- Distressed chains can also make attractive targets for companies that believe they can turn them around.

V

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Introduction

- Although the product is not expected to sell forever, managers want to earn enough profit to compensate for the effort and risk.

  - to maximize profits, a product's marketing strategy is normally reformulated several times

- Strategy changes are often the result of changing market and environmental conditions as the product moves through the product life cycle (PLC).

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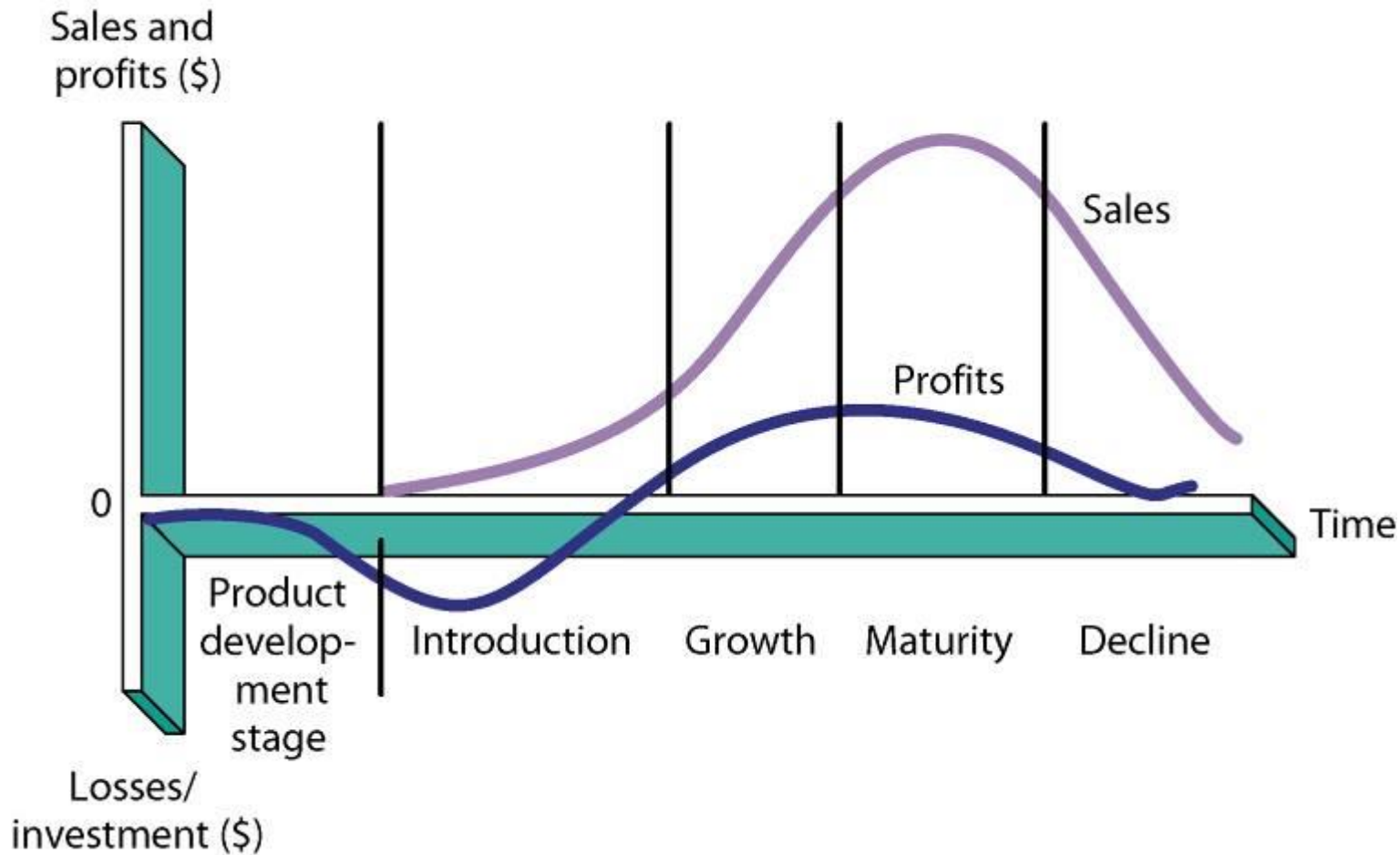
Description

Figure 9-5 Sales and profits over the products line from inception to demise.

Description

- ## The PLC is marked by five distinct stages:

  - **Product development -** when the company finds and develops a new product idea
    - sales are zero, investment costs add up

  - **Introduction -** a period of slow sales growth as the product is introduced into the market
    - profits are nonexistent because of heavy expenses of product introduction

  - **Growth -** rapid market acceptance & increasing profit

  - **Maturity -** slowdown in sales growth because the product has achieved acceptance by most of its potential buyers
    - profits level off or decline because of increased marketing outlays

  - **Decline -** when sales fall off quickly & profits drop

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Description

- Not all products follow this S-shaped product life cycle; some products are introduced and die quickly.
  - trendy nightclubs often have a short life & steeper curve
  - fried vegetables had a short life/steep curve in the early 80s
- Hotels often start into decline and then through a major renovation regain popularity and new growth.
- Diners popular in the 50s & replaced by fast-food chains have again become a popular style of restaurant.
  - other products such as White Castle may stay in the mature stage for a very long time

V

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Description

- The product life-cycle concept can describe a product class (fast-food restaurants), a product form (fast-food hamburgers), or a brand (Popeyes).
  - PLC applies differently in each case
- Product classes have the longest life cycles, product forms tend to have the standard PLC shape.
- The PLC concept is a useful framework for describing how products and markets work.

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Description

- Using the PLC concept for forecasting product performance or for developing marketing strategies presents some practical problems.

- In practice, it is very hard to forecast the sales level at each PLC stage, the length of each stage, and the shape of the PLC curve.

- The PLC is not a predictive tool to determine the length of a product's useful life.
  - it is a means of conceptualizing the effect of the market, environment & competition and understanding how the product may react to various stimuli

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Description

- Environmental and competitive changes move a product through its life cycle, and companies must react to keep their products salable.

  - often, when a product begins to peak in sales, management assumes it has started its decline

- Using PLC to develop marketing strategy can be difficult, as strategy is both a cause & a result of the product's life cycle.

- When used carefully, the PLC concept can help in developing good marketing strategies for different stages of the product life cycle.

V

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Introduction Stage

- The introduction stage starts when the new product is first made available for purchase.

- Some products may linger in the introduction stage for years before they enter a stage of rapid growth.
  - suite hotels followed this pattern

- There are only a few competitors who produce basic versions of the product because the market is not ready for product refinements.

- Companies focus on selling to buyers who are ready to buy, usually the higher-income groups.
  - prices tend to be on the high side

V

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Growth Stage

- If the new product satisfies the market, it enters the growth stage and sales start climbing quickly.
    - early adopters continue to buy & later buyers follow their lead, especially if they hear favorable word-of-mouth
- Competitors enter the market and introduce new product features, which expand the market.
    - prices remain where they are or fall only slightly
- Profits increase during this growth stage as costs are spread over a large volume and more efficient systems are developed.

V

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Growth Stage

- Companies use several strategies to sustain rapid market growth as long as possible:

  – product quality is improved; new features & models are introduced

  – new market segments are entered

  – advertising shifts from building product awareness to building product conviction and purchase

  – prices are lowered to attract more buyers

- In the growth stage, a company faces a tradeoff between high market share and high current profit.

V

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Maturity Stage

- At some point sales growth slows down, and the product enters the maturity stage, which lasts longer than the previous stages, & poses strong challenges to marketing management.

  - most producers are in the maturity stage and most marketing management deals with mature products

- Slowdown in sales growth causes supply to exceed demand, competitors begin lowering prices, and increase their advertising & sales promotion.

  - "Burger wars" and "pizza wars" are the result of these products being in the mature stage

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Maturity Stage

- The only way to increase sales significantly is to steal customers from the competition, and price battles & heavy advertising are often the means to do this.
  - both result in a drop in profits
- Weaker competitors start dropping out and the industry eventually contains only well-established competitors in the main market segments.
  - with smaller competitors pursuing the niche markets
- At this point the aggressive product manager tries to increase consumption, looking for new users, market segments & increasing use among present customers.

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Maturity Stage - Modifications

- The product manager can also change product characteristics, product quality, features, or style to attract new users and stimulate more usage.

- Quality improvement aims at increasing performance of the product—durability, reliability, speed, or taste.
  - effective when quality can be improved, buyers believe a claim of improved quality & enough want higher quality

- The product manager can try changing one or more marketing mix elements.
  - prices can be cut to attract new users competitor customers
  - a better advertising campaign can be developed

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Decline Stage

- Sales of most product forms & brands eventually decline, and may plunge to zero, or drop to a low level and continue there for many years.

- Keeping weak products delays the search for replacement, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

- Regularly reviewing sales, market share, costs, and profit trends for each of its products will help identify products in the decline stage.
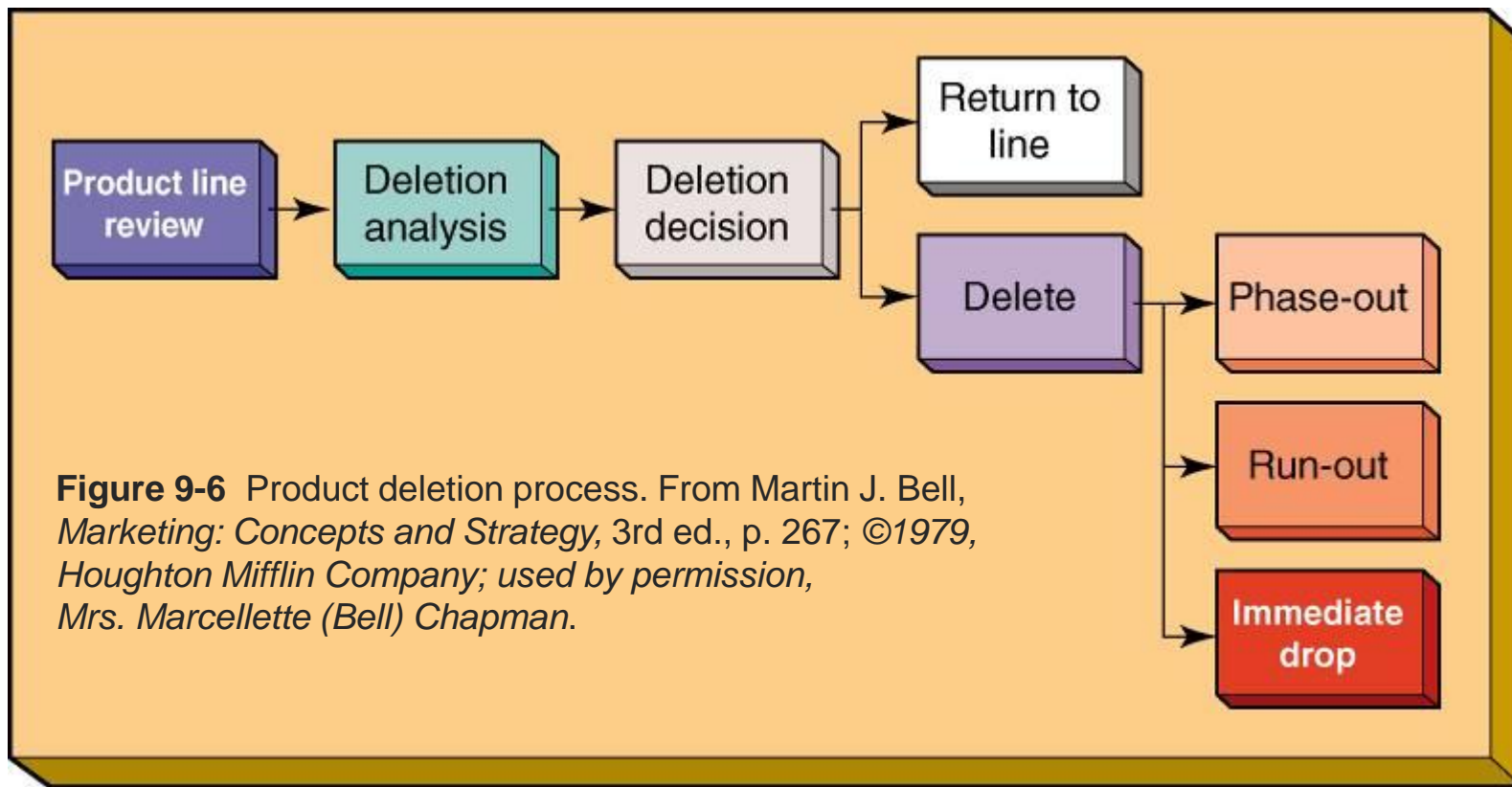
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Product Deletion

- If a product is no longer profitable, it is important to terminate it rather than continue to pour time & resources into reviving it.

- Understanding the product deletion process is as important as understanding product development.

- Deletion analysis is a systematic review of projected sales and estimated costs associated with those sales.

- If a product no longer appears to be profitable, the analysis looks at ways to make modifications and return it to profitability.

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Product Deletion

- If analysis indicates product deletion, there are three choices: *phase-out, run-out, or drop it immediately*

Figure 9-6 Product deletion process. From Martin J. Bell, *Marketing: Concepts and Strategy,* 3rd ed., p. 267; ©1979, *Houghton Mifflin Company; used by permission, Mrs. Marcellette (Bell) Chapman*.

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Product Deletion

- Phase-out is the ideal method, as it enables a product to be removed in an orderly fashion.
  - a menu item replaced on the next revision of the menu
- A run-out would be used when sales are low & costs exceed revenues.
  - if the restaurant decides to delete the product, it may choose to deplete its existing stock rather than reorder
- An immediate drop is usually chosen when the product may cause harm or complaints.
  - it is best to drop the item rather than continuing to create unhappy customers

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Product Deletion

- Political aspects of dropping a product often lead to a product being left on the menu longer than it should.

- Dropping a product is particularly complex in the case of the properties of a hotel or restaurant chain.

- Management is usually quite aware of individual properties that should be dropped from the chain affiliation due to deterioration of the property or the neighborhood in which the property is located.

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Product Deletion

- In many cases it is impossible or impractical to close the property quickly or drop it from chain affiliation:
  - contracts may prohibit a quick close
  - the property may have sentimental attachments to the community and to management
  - closure might have a negative effect on the community
  - a buyer may not be readily available or special relationships may exist between franchisee & franchisor

- Despite difficulties eventually the inevitable must occur, and it is best to make this difficult decision as quickly as possible.

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