SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA HRD – 406(C) Optional Paper

SUBJECT NAME: MARKETING SERVICES

UNIT-II

TOPIC NAME-PRODUCT MIX

The Product Mix

The product mix is a combination of products manufactured or sold by the same organization. Generally companies offer an assortment of related or unrelated products to the markets instead of focusing on a single product to strengthen their presence in the market and increase profitability.
Smaller or medium firms usually offer products that are related to each other while bigger ones go for large scale diversification.

For example- Ayur Herbals, a comparatively smaller enterprise basically deals with cosmetics and beauty products while giants like Reliance group and Tata industries have their presence in varied fields like telecom, processed food, consumer goods, etc. Dealing with multiple products enables a firm to expand its customer base and spread risk among its various offerings. The product mix includes both product lines and product items.

(i) Product Line:

Product line is a group of products that are closely related either because they satisfy a class of need, or used together, are sold to the same customer group, are marketed through the same types of outlets, or fall within given price ranges or that are considered a unit because of marketing, technical, or end-use considerations. For example, The Sunsilk range of shampoos and conditioners constitute a product line.

(ii) Product Item:

It is a distinct unit within the product line that is separate from others on basis of colour, size, price or other attributes. For example, Sunsilk Thick and Long shampoo is a product unit distinguishable from other items in the product range.

Structure of Product Mix:

1. Width:

Width of the product mix means the number of different product lines found within the company. Thus, breadth is measured by the number of product lines carried. For example, Bajaj group has a number of subsidiaries under it producing bulbs, fluorescent lights, mixers and grinders, toasters, motorcycles, pressure cookers and a host of other products.

2. Depth:

Depth of the product mix refers to the average number of items offered by the company within each product line. It is measured by assortment of sizes, colours, models, prices and quality offered within each product line. For instance, Hindustan Unilever offers a number of variants like Lux Fresh Splash, Strawberry and cream, Peach and cream, Sandal and cream, etc. within the product line Lux soaps.

3. Consistency:

The consistency of product mix points out how closely related the various product lines are in terms of consumer behaviour, production requirements, distribution channels or in some other way. For example, the products produced by the General Electric Company have an overall consistency in that most products involve electricity in one way or the other.

According to Kotler, all three dimensions of product mix have a market rationale. By increasing the width of the product mix the company hopes to capitalise on its good reputation and skills in present markets.

By increasing the depth of its product mix, the company hopes to entice the patronage of buyers of widely differing tastes and needs. By increasing the consistency of its product mix, the company hopes to acquire an unparalleled reputation in a particular area of endeavour.

Product – Types of New Products

Business firms always try to find new market by innovation and research they create new products to satisfy the changing demand of customers. We can see new products especially in the field of electronic and computer.

Booz, Allen and Hamilton have identified six categories of new products:

(i) New-to-the-World Products:

New-to-the-world products are innovative products that create an entirely new market, like water purifiers.

(ii) New Product Lines:

New products that allow a company to enter an established market like LCD television.

Product – Types of New Products

(iii) Additions to Existing Product Lines:

New products that supplement a company's established product lines like Fair and Lovely for men.

(iv) Improvements and Revisions of Existing Products:

New products that provide improved performance or greater perceived value and replace existing products, examples are books and software.

(v) Repositioning:

Existing products that are targeted to new markets or market segments, this is beneficial in expansion of market.

(vi) Price Differentiation:

Sometimes due to increasing competition in the market, the manufacturers have to offer the product with same features and functions but at lower price.

Product – Determinants of the Product Mix

Conditions which appear to exert a major influence on the product- mix decision are:

1. Technology:

Comparatively little industrial research is basic in the sense that it is directed to the discovery of new principles or knowledge. By far the greatest industrial use of research and development is in the application of existing knowledge to the development of new products and processes or the improvement of existing ones.

The rate of technological change is accelerating, and technical research is unquestionably the most basic force affecting the product mix of the individual company.

2. Competition:

A second important determinant of a firm's product mix is changes in competitors' product offerings. Closely related is the introduction of competitive products by companies not now considered to be competitors.

This has happened increasingly in recent years, with the growing tendency of industrial firms to enlarge their product mixes to include product lines in fields and markets not previously served.

Changes in competitive products represent a direct challenge to a company, and if the change is a truly significant improvement, it may prove disastrous unless it can be matched or surpassed within a reasonable length of time.

This matter of the time element explains why firms seemingly in a solid product position spend large sums on research to discover new products that render their present ones obsolete. When asked why his firm was doing this, one chief executive replied, 'If we don't, someone else will."

2. Competition:

In addition to changes in their product designs, competitors may make changes in their overall product mix and put a rival at a competitive disadvantage. There are important forces favoring a product mix of considerable breadth. Broadening product lines may be a real advantage in distributor relations and in lowering selling costs.

The number of competitors may change. An increase in numbers is likely to result in keener competition and lowered profit margins. Significant increases in numbers of competitors are especially likely in industries where the capital investment necessary for entry is modest.
In such situations, a product that enjoys a rapid increase in sales is likely to attract many new entrants into the field, some of whom will not survive the period of consolidation, or "shakeout," as it is sometimes called.

The result is that as soon as a firm introduces a new product on the market, it starts research to improve it and to find other new products to replace it when competition develops.

3. Operating Capacity:

Another important factor influencing a marketer's product mix is underutilized capacity. Since production facilities are usually composed of complexes of interrelated machines, changes in production capacity can rarely be made in small increments. When demand outruns existing facilities and a new equipment complex is brought on line, there may be a period in which it is not totally utilized in satisfying existing demand. In such situations it is very common for management to be under pressure to find new products which the equipment can make. Similarly, when a marketing organization is established to serve a particular territory for a given product line, it often becomes apparent that salesmen could handle other lines as well, and pressure is generated to find other products they can sell profitably.

3. Operating Capacity:

It is well known that many profitable firms do not pay out all their profits in dividends. Retained earnings become part of the firm's capital structure and must be invested. New products are one of the investment opportunities into which underutilized funds are often channeled.

Many manufacturing processes involve by-products which must either be used internally, marketed, or disposed of as waste. Growing concern with industrial wastes may be expected to stimulate greater efforts than in the past to turn them into products which can either be used internally or marketed. The latter instance, of course, leads to an expansion of the product mix.

4. Market Factors:

Although declines in demand are disturbing to management and may result in an expansion of the product mix in an effort to replace lost business, upward changes are also of significance. Management’s responsibility is to capitalize as fully as possible on expanding product fields just as much as it is to meet the challenge of declining markets.

<u>These changes in demand are of various types:</u>

i. Shifts in Customer's Product Mix:
ii. Changes in Availability or Cost:
iii. Changes in Manufacturing Processes:
iv. Shifts in Location of Customers:
v. Changes in Levels of Business Activity:
vi. Government Controls:

These changes in demand are of various types:

i. Shifts in Customer's Product Mix:

Goods which enter into customers' products such as parts and components are vulnerable to changes in the product lines manufactured by customers. If the customer is himself an industrial goods producer selling to other industries, his shift may be triggered by changes his customers have found necessary. Depending on the direction of change, pressure for an expansion or contraction of his own product mix is apt to result.

In addition to the product demand shifts brought about by customers' changes in product line design to meet their own customer needs, some regular customers may engage in diversification programs that expand their product mix.

This offers opportunities for the sale of additional quantities or for modification of the seller's product mix to capitalize on additional business available from them. Since diversification programs often grow out of a decline in business or the fear of a future decline, there may well be concurrent drops in normal demand.

ii. Changes in Availability or Cost:

A material or part used in making an end product may become scarce or its price may go up so as to distort the competitive relationships in either the component or the end product market. This necessitates product modification by the firm supplying the components and by consequence alters its mix of products.

iii. Changes in Manufacturing Processes:

Manufacturers of special purpose machines are particularly vulnerable to changes in the manufacturing processes of their customers. A change in process can render their machines obsolete, forcing a constriction in the product mix.

iv. Shifts in Location of Customers:

Transportation costs are important for many types of industrial goods. These costs limit the geographical extent of the market that can be profitably served by an industrial marketer, and any shift of customers out of this market area can result in major declines in sales and the necessity for replacing this lost business with other products.

Sometimes migration of industry into the area economically served by a producer helps offset losses from outward migration. Some manufacturers, however, have been so closely tied to particular industries—for example, textiles—that large-scale migration becomes a death sentence unless the supplier also moves.

v. Changes in Levels of Business Activity:

Nearly every producer faces some type of seasonal pattern of sales, and also is vulnerable in greater or less extent to major shifts in the level of general business. Some companies have extended their product mix by adding lines whose seasonal patterns offset those of their present lines, and thus have obtained a reasonably even rate of total production and sales activity throughout the year. This consideration also applies to distributors who may feel the need for a product mix that evens out seasonal fluctuations.

In somewhat similar fashion, some companies have sought to add product lines less sensitive to business-cycle fluctuations than are their existing ones. Many manufacturers of machinery, particularly in the major equipment groups, are concerned about their sensitivity to cyclical drops in demand and would like to meet this drop through diversification, Cyclical fluctuations are often of the rolling type in that demand does not decline in all industries at the same time.

vi. Government Controls:

The last several decades have been a period of war and general tension in international relations. It seems certain that for many years in the future there will be a high level of government spending for national defense, coupled with the possibility of limited scale military action.

Under such conditions, certain materials are of great strategic importance, and the government may take steps to limit their use for civilian purposes in order to manufacture military material or to build stockpiles.

Such government controls have widespread ramifications through industry, and tend to cause major changes in sales volume for particular product lines. When there is no possibility of substituting materials, little product action can be taken.