Product Hierarchy

Each product is related to certain other products. The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify seven levels of the product hierarchy. Here we define and illustrate them for life insurance:

1. Need family: The core need that underlies the existence of a product family. Example: security.
2. Product family: All the product classes that can satisfy a core need with reasonable effectiveness. Example: savings and income.
4. Product line: A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same channels, or fall within given price ranges. Example: life insurance.
5. Product type: A group of items within a product line that share one of several possible forms of the product. Example: term life.
6. Brand: The name, associated with one or more items in the product line, that is used to identify the source or character of the item(s). Example: Prudential.
7. Item (also called stockkeeping unit or product variant): A distinct unit within a brand or product line that is distinguishable by size, price, appearance, or some other attribute. Example: Prudential renewable term life insurance.

Another example: The need “to look and feel better” gives rise to a product family called toiletries and a product class within that family called cosmetics, of which one line is lipstick, which has different product types, such as tube lipstick, which is offered as a brand called Revlon, in a particular item type, such as “frosted tube lipstick.”

Two other terms are frequently used with respect to the product hierarchy. A product system is a group of diverse but related items that function in a compatible manner. For example, the Nikon Company sells a basic 35-mm camera along with an extensive set of lenses, filters, and other options that constitute a product system.
Product Classifications

Marketers have traditionally classified products on the basis of varying product characteristics: durability, tangibility, and use (consumer or industrial). Each product type has an appropriate marketing-mix strategy.5

Durability and Tangibility. Products can be classified into three groups, according to their durability and tangibility:

- **Non-durable goods**: Non-durable goods are tangible goods that normally are consumed in one or a few uses. Examples are beer, soap, and salt. Since these goods are consumed quickly and purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.

- **Durable goods**: Durable goods are tangible goods that normally survive many uses. Examples include refrigerators, machine tools, and clothing. Durable products normally require more personal selling and service, command a higher margin, and require more seller guarantees.

- **Services**: Services are intangible, inseparable, variable, and perishable. As a result, they normally require more quality control, supplier credibility, and adaptability. Examples include haircuts and repairs.

Consumer-Goods Classification. Consumers buy a vast array of goods. These goods can be classified on the basis of consumer shopping habits. We can distinguish among convenience, shopping, specialty, and unsought goods.
What Is a Brand?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands. Marketers say that "branding is the art and cornerstone of marketing." The American Marketing Association defines a brand as follows:

- **A Brand** is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

In essence, a brand identifies the seller or maker. It can be a name, trademark, logo, or other symbol. Under trademark law, the seller is granted exclusive rights to the use of the brand name in perpetuity. Thus brands differ from other assets such as patents and copyrights, which have expiration dates.

A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits, and services to the buyers. The best brands convey a warranty of quality. But a brand is even a more complex symbol. A brand can convey up to six levels of meaning:

- **Attributes**: A brand first brings to mind certain attributes. Thus, Mercedes suggests expensive, well built, well engineered, durable, high prestige, high resale value, fast, and so on. The company may use one or more of these attributes to advertise the car. For years Mercedes advertised, "Engineered like no other car in the world." This tagline served as the positioning platform for projecting the car's other attributes.

- **Benefits**: A brand is more than a set of attributes. Customers are not buying attributes; they are buying benefits. Attributes need to be translated into functional and/or emotional benefits. The attribute "durable" could translate into the functional benefit, "I won't have to buy a new car every few years." The attribute "expensive" might translate into the emotional benefit, "The car helps me feel important and admired." The attribute "well built" might translate into the functional and emotional benefit, "I am safe in case of an accident."

- **Values**: The brand also says something about the producer's values. Thus, Mercedes stands for high performance, safety, prestige, and so on. The brand marketer must figure out the specific groups of car buyers who are seeking these values.

- **Culture**: The brand may represent a certain culture. The Mercedes represents German culture: organized, efficient, high quality.

- **Personality**: The brand can also project a certain personality. If the brand were a person, an animal, or an object, what would come to mind? Mercedes may suggest a no-nonsense boss (person), a reigning lion (animal), or an austere palace (object). Sometimes it might take on the personality of an actual well-known person or spokesperson.

- **User**: The brand suggests the kind of consumer who buys or uses the product. We would be surprised to see a 20-year-old secretary driving a Mercedes. We would expect instead to see a 55-year-old top executive behind the wheel. The users will be those who respect the product's values, culture, and personality.

If a company treats a brand only as a name, it misses the point of branding. The challenge in branding is to develop a deep set of meanings for the brand. When the audience can visualize all six dimensions of a brand, the brand is deep; otherwise it is shallow. A Mercedes is a deep brand because we understand its meaning along all six dimensions. An Audi is a brand with less depth, since we may not grasp as easily its specific benefits, personality, and user profile.
Promoting the brand solely on one or more of its benefits can also be risky. Suppose Mercedes touts its main benefit as “high performance.” Suppose several competitive brands emerge with high or higher performance. Or suppose car buyers start placing less importance on high performance as compared to other benefits. Mercedes needs the freedom to maneuver into a new benefit positioning.

The most enduring meanings of a brand are its values, culture, and personality. They define the brand’s essence. The Mercedes stands for high technology, performance, success, and so on. This is what Mercedes must project in its brand strategy. It would be a mistake for Mercedes to market an inexpensive car bearing the name Mercedes. Doing so would dilute the value and personality that Mercedes has built up over the years.

The Concept and Measurement of Brand Equity

Brands vary in the amount of power and value they have in the marketplace. At one extreme are brands that are not known by most buyers in the marketplace. Then there are brands for which buyers have a fairly high degree of brand awareness (measured either by brand recall or recognition). Beyond this are brands with a high degree of brand acceptability—in other words, brands that most customers would not resist buying. Then there are brands that enjoy a high degree of brand preference. These are brands that are selected over the others. Finally there are brands that command a high degree of brand loyalty. Tony O’Reilly, CEO of H. J. Heinz, proposed this test of brand loyalty: “My acid test . . . is whether a housewife, intending to buy Heinz tomato ketchup in a store, finding it to be out of stock, will walk out of the store to buy it elsewhere or switch to an alternative product.”

Few customers are as brand-loyal as O’Reilly hopes Heinz’s customers will be. Aaker distinguished five levels of customer attitude toward their brand, from lowest to highest:

1. Customer will change brands, especially for price reasons. No brand loyalty.
2. Customer is satisfied. No reason to change the brand.
3. Customer is satisfied and would incur costs by changing brand.
4. Customer values the brand and sees it as a friend.
5. Customer is devoted to the brand.

Brand equity is highly related to how many of a brand’s customers are in classes 3, 4, or 5. It is also related, according to Aaker, to the degree of brand-name recognition, perceived brand quality, strong mental and emotional associations, and other assets such as patents, trademarks, and channel relationships.10

Certain companies are basing their growth on acquiring and building rich brand portfolios. Grand Metropolitan acquired various Pillsbury brands, Green Giant vegetables, Haagen-Dazs ice cream, and Burger King. Nestlé acquired Rowntree (U.K.), Carnation (U.S.), Stouffer (U.S.), Buitoni-Pergina (Italy), and Perrier (France), making it the world’s largest food company. In fact, Nestlé paid $4.5 billion to buy Rowntree, five times its book value. These companies do not normally list brand equity on their balance sheet because of the somewhat arbitrariness of the estimate. (For example, one measure of brand equity value is the price premium the brand commands times the extra volume it moves over what an average brand would command.11)
The world’s 10 most valuable brands, according to the 1994 *Financial World* survey of brand value, are (in rank order): Coca-Cola, Marlboro, Nescafe, Kodak, Microsoft, Budweiser, Kellogg’s, Motorola, Gillette, and Bacardi. According to the survey, Coca-Cola’s brand equity is $36 billion, Marlboro’s is $33 billion, and Nescafe’s is $11.5 billion.\(^{12}\)

High brand equity provides a number of competitive advantages:

- The company will enjoy reduced marketing costs because of the high level of consumer brand awareness and loyalty.
- The company will have more trade leverage in bargaining with distributors and retailers since customers expect them to carry the brand.
- The company can charge a higher price than its competitors because the brand has higher perceived quality.
- The company can more easily launch brand extensions since the brand name carries high credibility.
- The brand offers the company some defense against fierce price competition.

A brand name needs to be carefully managed so that its brand equity doesn’t depreciate. This requires maintaining or improving over time brand awareness, brand perceived quality and functionality, positive brand associations, and so on. These tasks require continuous R&D investment, skillful advertising, and excellent trade and consumer service. Some companies, such as Canada Dry and Colgate-Palmolive, have appointed “brand equity managers” to guard the brand’s image, associations, and quality—especially when the brand name is extended over other products—and to prevent short-term tactical actions by overzealous brand managers from hurting the brand.

P&G believes that well-managed brands are not subject to a brand life cycle. Many brand leaders of 70 years ago are still today’s brand leaders: Kodak, Wrigley’s, Gillette, Coca-Cola, Heinz, and Campbell’s Soup.
BRAND-NAME DECISION. Manufacturers who decide to brand their products must choose which brand names to use. Four strategies are available here:

1. **Individual brand names:** This policy is followed by General Mills (Bisquick, Gold Medal, Betty Crocker, Nature Valley).

2. **Blanket family name for all products:** This policy is followed by Heinz and General Electric.

3. **Separate family names for all products:** This policy is followed by Sears (Kenmore for appliances, Craftsman for tools, and Homart for major home installations).

4. **Company trade name combined with individual product names:** This policy is followed by Kellogg's (Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes).

What are the advantages of an individual-brand-names strategy? A major advantage is that the company does not tie its reputation to the product's acceptance. If the product fails or appears to have low quality, the company's name or image is not likely to be hurt. A manufacturer of good-quality watches, such as Seiko, can introduce a lower-quality line of watches (called Pulsar) without diluting the Seiko name. The individual-brand-names strategy permits the firm to search for the best name for each new product. A new name permits the building of new excitement and conviction.

A blanket family name also has advantages. The development cost is less because there is no need for “name” research or heavy advertising expenditures to create brand-name recognition. Furthermore, sales of the new product are likely to be strong if the manufacturer's name is good. Thus Campbell's introduces new soups under its brand name with extreme simplicity and achieves instant recognition.
Once a company decides on its brand-name strategy, it faces the task of choosing a specific brand name. The company could choose the name of a person (Honda, Estée Lauder), location (American Airlines, Kentucky Fried Chicken), quality (Safeway stores, Duracell), lifestyle (Weight Watchers, Healthy Choice), or artificial name (Exxon, Kodak). Among the desirable qualities for a brand name are the following:  

1. *It should suggest something about the product's benefits.* Examples: Beauty-rest, Craftsman, Accutron.  
2. *It should suggest product qualities such as action or color.* Examples: Sunkist, Spic and Span, Firebird.  
3. *It should be easy to pronounce, recognize, and remember.* Short names help. Examples: Tide, Crest, Puffs.  
4. *It should be distinctive.* Examples: Mustang, Kodak, Exxon.  
5. *It should not carry poor meanings in other countries and languages.* Example: *Nova* is a poor name for a car to be sold in Spanish-speaking countries; it means “doesn’t go.”

Normally, companies choose brand names by developing a list, debating the merits of different names, and making a choice. Today many companies hire a marketing research firm to develop names and test them. Name-research procedures include *association tests* (What images come to mind?), *learning tests* (How easily is the name pronounced?), *memory tests* (How well is the name remembered?), and *preference tests* (Which names are preferred?). One of the best-known specialists in the “name game” is NameLab, Inc., which is responsible for such brand names as Acura, Compaq, and Zapmail.
Brand-Strategy Decision. A company has five choices when it comes to brand strategy. The company can introduce *line extensions* (existing brand name extended to new sizes, flavors, and so on in the existing product category), *brand extensions* (brand names extended to new-product categories), *multibrands* (new brand names introduced in the same product category), *new brands* (new brand name for a new category product), and *cobrands* (brands bearing two or more well-known brand names). According to Marketing Intelligence Services, of the 17,363 new consumer packaged goods introduced in calendar year 1993, only a handful—794 to be exact—could truly be considered innovative. The rest were line extensions and product enhancements.\textsuperscript{20}