



# 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 to write about? You'd be in a place of panic! You'd have to come up with a topic for your paper. An appropriate product mix is essential for a company's success.

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## 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





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.

# WAL★MART®

## TIFFANY & Co.

## The Gray Zone

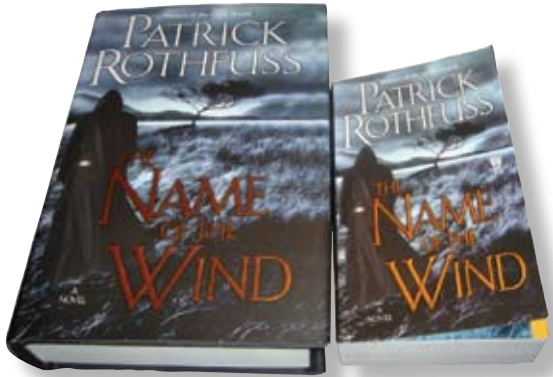
Due to rising fuel costs and dwindling cash reserves, a budget airline needs to drop several of its destinations so it can stay afloat. This is part of a contraction product strategy. So as not to alarm customers, the company announces the change one day before the flight. The airline says that their previous schedule was a pilot, but their schedule change 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?



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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... ce of  
employ... re-  
sons... osen?  
Is it... busi-  
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