10 Product management

This chapter covers Unit 2, Module 2, Section 7.
On completion of this chapter you should be able to:

- understand the concept of product
- identify the dimensions of the product mix
- analyse the new product development process
- understand and apply the concept of the product life cycle
- recognise the significance of branding and packaging
- realise the special characteristics of services

The concept of product and the augmented product concept

A product is a good or service that possesses tangible or intangible benefits that satisfy consumers and is sold to them in exchange for money.

Core product: this refers to the essential benefit that the product will provide to a customer – the function it will perform. For example, the core attribute of a cell (mobile) phone is to make calls to other phones reliably and clearly.

Actual (or formal) product: this refers to the range of functions and benefits that a product will have. This includes:
- Quality level
- Features
- Brand name
- Packaging

So a cell phone may have a brand name (e.g. Nokia), will be convenient to hold and use, will store many numbers, can also take photographs, will be of high and durable quality and will be protected by attractive packaging.

Augmented product: this means that the business is trying to sell more than a cell phone. It will be supported and enhanced by a range of services such as free advice on how to use it, a guarantee of quality, cheap or free credit to purchase the phone, free help line (customer support) and quick after sales service should problems develop.

As consumers’ incomes and expectations increase throughout many parts of the world, the importance of augmenting the product proposition to consumers also increases in order to attract their attention. It is now quite rare for consumers in many countries to be presented with just a ‘core product’.

Dimensions of the product mix

If a business is marketing more than one product, it has a ‘product mix’. It is helpful to distinguish between the following terms:

Product item: a single product, e.g. a frozen pizza
Product line: all items of the same type, e.g. the full range of frozen pizzas with different toppings marketed by a business
Product mix: total range of products that a business markets.

There are two dimensions to a firm’s product mix:

Depth: This measures the number and range of products that are offered within each product line. Why
might a frozen pizza manufacturer sell a very large range of sizes and toppings for the pizzas? Each one is likely to appeal to a different segment of consumers, e.g. non-meat pizzas will appeal to vegetarians and small pizzas may appeal to one-person households. So these different products may be a response to the potential benefits to be gained from market segmentation. In addition, a large range of different options will maximise the shelf space taken up by the manufacturer in supermarkets, it will discourage competitors, as most of the profitable market segments will have been 'covered' and it allows products to be sold at a range of price levels.

**Width:** This measures the number of product lines that a company offers. So, the pizza manufacturer may sell other food items, either to directly support the pizzas – such as ice creams for dessert! – or to diversify into other food sections of the market. This might include fresh food products to allow for swings in consumer tastes against frozen foods.

**Boston Matrix – product portfolio analysis**

The most widely used approach to analysing the market standing of a firm’s products and the firm’s overall product portfolio uses the model developed by the Boston Consulting Group, called the Boston Matrix, or Box (see Figure 10.1).

This highlights the position of each of a firm’s products in terms of market share and market growth. This allows not only an analysis of the existing product portfolio but also what steps the firm could take next.

The size of each circle represents the total revenue earned by each product. The four sectors created by the matrix can be analysed in the following way:

**Low market growth – high market share: product A** This is a well-established product in a mature market.

Typically, this type of product creates a high positive cash flow and is profitable. Sales are high relative to the market and promotional costs are likely to be low, as a result of high consumer awareness. The cash from this product can be ‘milked’ to inject into some of the other products in the portfolio – hence, this product is often referred to as a ‘cash cow’.

**High market growth – high market share: product B** This is clearly a successful product as it is performing well in an expanding market. Because of this it is often called a ‘Star’. The firm will be keen to maintain the market position of this product in what may be a fast-changing market – therefore, promotion costs will be high to help differentiate the product and reinforce its brand image.

**High market growth – Low market share: product C** This is called a ‘problem child’. If it is a newly launched product it is going to need heavy promotion costs to help become established – this finance could come from the ‘cash cow’. The future of the product may be uncertain and quick decisions may need to be taken if sales do not improve, such as revised design, relaunch or even withdrawal from the market. It should, however, have potential as it is selling in a market sector that is growing fast.

**Low market growth – low market share: product D**

These are called ‘dogs’. They seem to offer little to the business either in terms of existing sales and cash flow or future prospects, because the market is not growing. They may need to be replaced shortly, or the firm could decide to withdraw from this market sector altogether and position itself into faster growing sectors.

**Uses of the Boston Matrix**

By identifying the position of all of the firm’s products a full analysis of the portfolio is possible. This should help...
focus on which products need support or which need corrective action. This action could include:

**Building** – supporting ‘problem child’ products with additional advertising or further distribution outlets. The finance for this could be obtained from the established cash cow products.

**Holding** – continuing support for ‘star’ products so that they can maintain their good market position. Work may be needed to ‘freshen’ the product in the eyes of the consumers so that high sales growth can be sustained.

**Milking** – taking the positive cash flow from established products and investing in other products in the portfolio.

**Divesting** – identifying the worst performing ‘dogs’ and stopping the production and supply of these. This will possibly involve other issues, such as the impact on the workforce and whether the spare capacity freed up by stopping production can be used profitably for another product.

These strategies can only be undertaken if the business has a balanced portfolio of products. If there are too many ‘dogs’ or ‘problem children’ then the overall shortage of cash may not allow the firm to take appropriate action.

### Activity

Read the case study below and then tackle the exercises that follow.

### Case study – ‘Cash cow at the dairy’

Salman Gasim was looking at the latest sales data for FarmGate dairies. As usual, there was some good news and bad news. The four main products recorded very different sales performances and marketing decisions had to be made concerning the product portfolio. Here are the sales data:

<table>
<thead>
<tr>
<th>Product</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>% share of the market segment each product is sold in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold seal milk</td>
<td>25</td>
<td>26</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Lo Fat Yoghurts</td>
<td>–</td>
<td>7</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Churn butter</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Hi Energy spread</td>
<td>30</td>
<td>28</td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>

Gold seal milk is the oldest established product. Sales have not risen greatly over the last few years but it is in a mature market. FarmGate has not promoted the brand for the last three years.

Lo Fat Yoghurts were launched two years ago with a substantial marketing campaign. Although there is great competition in this segment of the market – it was becoming one of the largest segments in the high-profit-margin yoghurt market – FarmGate’s Lo fat product initially caught the public’s imagination. Product developments might be needed to sustain consumer interest.

Churn butter had for many years been a weak brand in its sector. Frequent promotional campaigns and special offers had failed to create much consumer loyalty. Butter sales in general were suffering because of increasing health concerns.

Hi Energy spread was only introduced to the market five years ago. Sales took off like a rocket – partly due to very competitive pricing. Healthy eating habits were driving the market forward but new brands were making their presence felt. Should a further advertising campaign be introduced? Should the product be developed with a wider range of flavours?

(20 marks, 30 minutes)

(a) Classify each of these products according to the Boston Matrix. Justify your classification. (8)

(b) Discuss how this analysis might assist managers when taking marketing decisions. (6)

(c) Analyse what strategies the business could adopt for either Lo Fat Yoghurts or Hi Energy spread. (6)
New product development process

In many fast-changing markets there is a constant need to develop new products. If this is not successfully undertaken, then a business may find itself trying to market products that are perceived as being out of date, incorporating technology that has been overtaken by other firm’s developments. This is true for the consumer electronics market, cars and cameras. New product development is also very important in the pharmaceuticals industry, where the opportunities to make huge profits from new drugs are considerable, and in industrial product markets, such as machinery where robots and micro-chips have revolutionised production methods and machines.

For a new product to succeed it must:
- have desirable features that consumers are prepared to pay for;
- be sufficiently different from other products to make it stand out and offer a ‘unique selling point’;
- be marketed effectively to consumers – they need to be informed about it.

There are several general categories of new products. These include completely novel ideas that create new products (e.g. the original MP3 players); some products which are new for the company launching them (e.g. Sony’s decision to enter the games console market) and some are new to a particular market (e.g. laptop computers from business to domestic market).

There are seven stages in the process of new product development:

1. Generating new ideas

All new product innovations must start with an initial idea. Ideas for new products can come from a variety of sources:
- The company’s own Research and Development (R&D) department. This is a very expensive process and not all businesses will have a R&D department.
- The adaptation of competitors’ ideas (being careful not to infringe copyright/patent laws)
- Market research such as focus groups. These can be used to stimulate discussion about new products that consumers would like to see on the market.
- Employees. By encouraging workers to become involved in generating new product ideas the business could benefit twice. Firstly, workers, because of their contact with the existing products and, possibly, customers, may have excellent ideas for new developments. Secondly, staff motivation may be boosted by being made to feel important by their participation.

- Salespeople – they have close contact with the final consumers and they may suggest improvements to existing products or even completely new ones.
- Brainstorming in groups – this generates new ideas by members of the group developing and extending ideas beyond the level that would be achieved by individuals working separately.

2. Idea screening

The purpose of this stage is to eliminate those ideas which stand the least chance of being commercially successful. It can be very expensive to develop and market new products so care should be taken to try to ensure that efforts are directed only at those ideas with a reasonable chance of success. Those doing the screening should ask:
- How will the consumers in our target markets benefit from this product?
- Is it technically feasible to manufacture this product?
Will the product be profitable enough at the price we are likely to be able to charge the customer for it?

3 Concept development and testing

This stage takes the idea a step further by asking key questions about what features the product should have, the likely cost of these to manufacture and who the consumers are likely to be. These questions need to be asked against the background of how much the final consumer is likely to be prepared to pay for the product. So, the following points are discussed:

- Who are the most likely consumers of the product?
- What product features should be incorporated?
- What specific benefits will this product provide?
- How will consumers react to it? This might be tested by using market research and asking a sample of prospective customers what they think of the product idea and whether they would be likely to buy it and replace their ‘current brand’ with it.
- What are the most cost effective methods of manufacture?
- What will it cost to produce?

4 Business analysis

This is the stage that considers the likely impact of the new product on the company’s costs, sales and profits. This will need an estimated price to be set, for the product based on customer feedback from concept testing and competitors’ data. The expected sales volume and market share can be estimated as can the expected break-even level of production. Other issues to be researched include:

- Is finance available to develop the product?
- Can it be patented? This would offer monopoly rights of manufacture and sale for a certain number of years.
- Will it fit in with the existing product mix?
- How will changes in the economic environment be likely to affect sales in the future?

Test the product in typical use conditions, e.g. a car will be tested in hot and cold countries to test performance under different conditions.

- Use focus groups to gather opinions about the product.
- Adapt the product as required after testing or focus group feedback – the final version should take into account the views of potential customers at this stage.

6 Test marketing

This stage aims to launch the product on a small-scale market to test consumers’ reactions to it. This small market should be as representative as possible of the main market in terms of consumer profiles. Test marketing has certain benefits over a full-scale launch to the entire market:

- Actual consumer behaviour can be observed and measured.
- Feedback from consumers will enable a final decision to be made about investing capital in a full-scale launch.
- It therefore reduces the risk associated with a product failing after a full-scale launch – and the associated poor publicity.
- Any weaknesses in the product identified by consumer feedback could be taken into consideration in the final version of the product.

There are some limitations of test marketing as well:

- It can be expensive.
- Competitors are able to observe a firm’s intentions and react – perhaps rushing out a ‘copy’ – before a full-scale launch of the product is put into effect.

Some new products are withdrawn at this stage if the sales results of the test market are disappointing. There are cheaper alternatives to test marketing such as a free sample strategy where small numbers of free samples are distributed to potential consumers who agree to be questioned later about their thoughts on the product.

7 Commercialisation

This refers to the full-scale launch of the product and corresponds to the introduction phase of the product life cycle. A promotional strategy will be put into place with advertisements to inform the market of the new product’s arrival. The distribution channel will be
'filled up' with stocks of the product to make sure it is available when consumers want to buy it. This will be the most crucial few weeks or months in the life of the new product, and marketing managers will await the newest sales results data with keen interest.

**Product life cycle**
Knowing when to launch a new product or update an existing one can give a business a crucial advantage. Allowing existing models of cars or computers to 'soldier on' in the market when other firms are introducing attractive new or revamped ones is a classic business error that has led to many failures. An awareness of the product life cycle principle can assist greatly in dealing with this problem. The life cycle of a product records the sales of that product over time. The stages in a typical life cycle are shown in Figure 10.2.

Points to note on each stage:

**Introduction** This is when the product has just been launched after development and testing. Sales are often quite low to begin with and may increase only quite slowly – but there are exceptions, such as the newly launched CD by Madonna!

**Growth** If the product is effectively promoted and well received by the market then sales should grow significantly. This stage cannot last for ever, although all firms wish that it would. Eventually, and this may take days, weeks or even years, sales growth will begin to slow and might stop altogether which leads the product into the next stage. The reasons for growth dying down include increasing competition, technological changes making the product less appealing, changes in consumer tastes – and saturation of the market.

**Maturity or saturation** At this stage sales fail to grow but they do not decline significantly either. This stage can last for years, for example Coca Cola. The saturation of a market is caused by most consumers who want a certain product having already bought one. The best recent example is mobile phones. Although the world market has grown phenomenally in recent years, in 2001 sales growth ended altogether. This was put down to the vast number of consumers who already possessed a mobile. It is only when their own phone breaks down or is replaced by newer technology that a further spurt to sales growth will be received. This is why all phone companies are working so hard on the 'G3' next generation of mobile phone – to make existing models obsolete!

**Extension strategies** These are marketing plans to extend the maturity stage of the product before a brand new one is needed. Such strategies include developing new markets for existing products, for example export markets, new uses for existing products and relaunches involving new packaging and advertising.
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**Decline**  During this phase sales will decline steadily. Either no extension strategy has been tried, or it has not worked or the product is so 'past it' that the only option is replacement. Newer competitors' products are the most likely cause of declining sales and profits – and when the product becomes unprofitable or when its replacement is ready for the market it will be withdrawn.

**Applications of the product life cycle**

The life cycle concept has three main uses:

- assisting with planning marketing mix decisions,
- identifying how cash flow might depend on the cycle,
- recognising the need for a balanced product portfolio.

### Assisting with the planning of marketing mix decisions

When would you advise a firm to lower the price of its product – at the growth or at the decline stage? In which phase is advertising likely to be most important – during introduction or at maturity? When should

<table>
<thead>
<tr>
<th>Phase of the PLC</th>
<th>Price</th>
<th>Promotion</th>
<th>Place (distribution outlets)</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td>May be high compared to competitors (skimming) or low (penetration).</td>
<td>High levels of informative advertising to make consumers aware of the product's arrival on the market.</td>
<td>Restricted outlets – possibly high-class outlets if a skimming strategy is adopted.</td>
<td>Basic model.</td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>If successful, an initial penetration pricing strategy could now lead to rising prices.</td>
<td>Consumers need to be convinced to make repeat purchases – brand identification will help to establish consumer loyalty.</td>
<td>Growing numbers of outlets in areas indicated by strength of consumer demand.</td>
<td>Planning of product improvements and developments to maintain consumer appeal.</td>
</tr>
<tr>
<td><strong>Maturity</strong></td>
<td>Competitors likely to be entering market – there will be a need to keep prices at competitive levels.</td>
<td>Brand imaging continues – growing need to stress the positive differences with competitors' products.</td>
<td>Highest geographical range of outlets as possible – developing new types of outlets where possible.</td>
<td>New models, colours, accessories, etc. as part of extension strategies.</td>
</tr>
<tr>
<td><strong>Decline</strong></td>
<td>Lower prices to sell off stock – or if the product has a small 'cult' following, prices could even rise.</td>
<td>Advertising likely to be very limited – may just be used to inform of lower prices.</td>
<td>Eliminate unprofitable outlets for the product.</td>
<td>Prepare to replace with other products – slowly withdraw from certain markets.</td>
</tr>
</tbody>
</table>

The marketing mix and phases of the product life cycle.
Activity

Read the case study below and then tackle the exercises that follow.

Case study – Nestlé drops LC1 Go! brand after poor sales

Nestlé has scrapped its probiotic LC1 Go! live yoghurt drink less than three years after it was launched in England with a £2m TV ad campaign.

The launch of LC1 Go!, a citrus-flavoured low-fat dairy drink was meant to be the company’s answer to the fast-growing demand for single-dose bottles of live, friendly bacteria that help the body’s digestive system.

A competitor – Yakult – is the biggest seller in a market worth £45m in 2000.

Go! struggled to make an impact and had just 5% market share in 2000, despite its lower price.

Go! was part of a range that included LC1 set yoghurt, which has been withdrawn from the UK for a second time. It was introduced in 1996, then scrapped a year later after disappointing sales. It was relaunched in 1998.

Two years ago, an annual Nestlé report described Go! as an innovation that would strengthen the company’s position in Europe.

But poor sales have forced Nestlé to pull the product out of Europe’s biggest food markets.

A Nestlé spokesman said the LC1 range was well-received at launch, but added that distribution proved ‘difficult to gain and maintain in the face of strong competitive pressure’.

LC1 range: failed to make an impact in market led by Yakult

(20 marks, 30 minutes)

1 Calculate the value of Go!’s sales in 2000. (2)

2 Sketch the apparent product life cycle for this product – and justify the ‘shape’ of your diagram. (4)

3 Examine the measures that Nestlé could have taken instead of withdrawing this product from the market. (6)

4 Outline four possible reasons why this product failed to live up to the company’s expectations for it. (8)

variations be made to the product – during introduction or at maturity? By asking these questions you can begin to see how significant awareness of the product life cycle might be to marketing managers.

Although there is no definite and unchangeable answer to the questions above there are likely to be common links between the phases of the life cycle and the nature of the price, product, promotion and place decisions taken by a firm. Here are some suggestions of what needs to be considered – the final decisions, however, will also depend on competitors’ actions, the state of the economy and the marketing objectives of the business.

Identifying how cash flow might depend on the cycle

Cash flow is vital to business survival and ignoring the link between cash flow and product life cycles could be very serious. Figure 10.4 shows this typical relationship.

Cash flow is negative during the development of the product as costs are high but nothing has yet been produced or sold. At introduction the development costs might have ended but heavy promotional expenses are likely to be incurred – and these could continue into the growth phase. In addition, there is likely to be much unused factory capacity at this stage which will place a further strain on costs. As sales increase then cash flow should improve – precisely when will depend on the length of consumer credit being offered. The maturity phase is likely to see the most positive cash flows because sales are high, promotion costs might be limited and spare factory capacity should be low. As the product passes into decline so price reductions and falling sales are likely to combine to reduce cash flows. Clearly, if a
business had too many of its products either at the decline or the introduction phase then the consequences for cash flow could be serious. This introduces the next idea:

**Identifying the need for a balanced product portfolio**

Look at Figure 10.5. This shows an ‘ideal’ position for a business to be in. As one product declines so other products are being developed and introduced to take its place. Cash flow should be reasonably balanced so there are products at every stage and the positive cash flows of the successful ones can be used to finance the cash deficits of others. Factory capacity should be kept at roughly constant levels as declining output of some goods is replaced by increasing demand for the recently introduced products. This is said to be a balanced portfolio of products. The other well-known technique for analysing this concept is the Boston Matrix – see page 95.

**Branding and packaging**

These two important aspects of the ‘product’ are closely linked together. A brand name is a distinctive title for a product or range of products that consumers can easily identify – and identify with, in the case of, for example, fashion clothing. The list of easily and widely identifiable brand names is huge and is constantly growing with the support of the promotion industry. Kellogg’s, Adidas, Microsoft and Versace are examples of household names that consumers associate with quality products. These names – you could add to this list yourselves – have become brand names known around the world, so whichever country is visited by a tourist or a business executive, these brand names can be seen and the products that carry the names purchased.

Packaging supports a product’s brand image and helps to make it instantly identifiable. Most packaging carries not just a description of the product – e.g. Corn Flakes – but also the company brand name and logo – the slogan or art design used to differentiate the product from competitors. Famous examples of packaging that are quickly recognised include the Coca-Cola bottle and the McDonald’s carry-out bag with the famous ‘double arch’ M.

Why is branding becoming so important in modern marketing? In the past, when consumer incomes were
<table>
<thead>
<tr>
<th>Claimed benefits to consumers</th>
<th>Claimed benefits to business</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Reduces time to make choices – the branded goods can be quickly identified</td>
<td>♦ Branded goods can often be sold at higher prices than non-branded or supermarket’s 'own brand' goods</td>
</tr>
<tr>
<td>♦ Quality standards are likely to be consistent as the business will not want the good name of the brand to be damaged by bad publicity</td>
<td>♦ If quality and reputation remain high, then consumer loyalty will be achieved</td>
</tr>
<tr>
<td>♦ Status may be conferred on the consumers of certain expensive branded products such as Dolce &amp; Gabbana</td>
<td>♦ The demand from consumers is likely to be less price elastic than for non-branded goods</td>
</tr>
<tr>
<td></td>
<td>♦ Effective branding – supported by packaging – allows a firm to clearly differentiate its products from those of competitors</td>
</tr>
</tbody>
</table>

limited and product choice rare, it was normal for consumers to ask for ‘a lemonade’ when thirsty or an ‘ice cream’ when hot. The arrival of modern marketing and the increases in consumer living standards have changed all this. Consumers are bombarded with advertising, film, press and TV images of branded goods that they ‘must buy’ if they are to obtain the ‘best’ or if they are to ‘look cool’. Many buyers are now prepared to pay slightly more for a Coca Cola than a locally made soft drink with either no brand name, or one that few people would recognise.

It is claimed that branding of products in this way has benefits to both consumers and the company selling the branded goods:

- Packaging of products performs several functions in today’s consumer markets. The original purpose of packaging was to protect the product from damage and deterioration in its passage from factory to consumer. This is still one of the functions of most packaging, but modern packaging aims to achieve much more than this. It carries the company’s brand name and logo. It is often in the ‘corporate colours’ of the company for ease of identification. It often carries important consumer information that may be required by law – such as ingredients of food products – or which has been provided by the company as a service to consumers – such as a recipe that could be made with the food product. Such has been the increasing attention given to the design and quality of packaging that there are, in many countries, growing concerns about the environmental damage of excess packaging. Some businesses have started to use less expensive and recyclable packages in order to promote their ‘environmental image’. In the future, it is expected that an increasing number of businesses will devote attention to making packaging both eye-catching and environmentally friendly.

**Characteristics of services**

Goods are tangible objects. A cake can be seen, touched and eaten! Services are intangible and they offer benefits to customers which cannot be seen. Most countries economies are experiencing an increase proportion of GDP generated from service industries and a declining proportion from manufacturing of goods. Banking, insurance, air and train travel, hotel accommodation and stockbroking are all examples of services. There are
Activity

Read the case study below and then tackle the exercises that follow.

Case study – Re-inventing the brand

TSTT, Trinidad and Tobago’s sole telecom provider, has become so concerned about its brand image with customers (phone subscribers) and other stakeholders that it has decided to engage in an aggressive rebranding exercise that will ‘add value and enhance the customer’s experience’ say company executives. Politicians were not alone in criticising the monopoly provider for offering poor phone coverage and inadequate customer support. There were frequent calls for the telecoms market to be opened up to competition from foreign companies and this would have put TSTT’s future at risk. So the new company bosses are determined the re-invent the TSTT brand to increase customer satisfaction – and in this way they hope to increase long-term profits. The company plans to invest in new technology that will increase network coverage, it has just launched its GPRS internet service and staff will be trained to higher levels of competence so that better customer service is offered. We are determined that the TSTT brand name becomes associated with low charges and excellent service, said a company spokesperson.

(20 marks, 30 minutes)

(a) What is meant by ‘brand image’? (3)
(b) Why did TSTT seem to suffer from a poor brand image? (4)
(c) Explain why a good brand image is important to a business such as TSTT. (7)
(d) Apart from the measures suggested in the passage explain TWO other possible ways in which TSTT might ‘re-invent’ its brand image. (6)

Four distinguishing characteristics of services compared with goods:

- **Intangible** – this has already been explained.
- **Perishability** – services cannot be stored for sale in the future, unlike most goods. If an airline ticket is not sold for today’s flight to Jamaica, the service offered by the empty seat has been lost forever! This means that the opportunity to generate revenue from that seat has also been lost. The same applies to all services. Take hairdressing as another example. If ‘A Cut Above’ employs three people who can each serve eight customers a day, then if only 20 customers come in for a haircut, the business has lost the revenue from four potential haircuts – yet it still has to pay its staff. This is one reason why many service providers are prepared to offer special deals to consumers ‘at the last minute’ to avoid the risk of losing all potential revenue. So, airline tickets, if a lot of space remains on a flight, are often sold cheaply to last-minute customers.
- **Variability** – the quality of services offered to customers often varies in quality due to the fact that they are mostly labour intensive. The variability of work undertaken by workers when providing a service is likely to be much greater than that produced by machines when manufacturing a standardised product. This means that extra resources may need to be provided by service companies to either increase the homogeneity of the services provided or to offer remedial action if the original service fails to reach consumers’ expectations.
- **Inseparability** – the customer is usually present when the service is given and there is therefore no separation between the business and the consumer. Providing legal advice, cutting hair or providing hotel accommodation all require the consumer to be present. This means that the resources of the service provider must be available at the time that is most convenient to the customer – unlike goods, services cannot be made in one time period and sold in another.