Management Concept of Product and Service Value

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Abstract: In the traditional approach of product management, the management focuses on mostly physical products. In many cases, development of new products aims at increasing the product performance, adding the product functions, and cutting the product costs for the better product total quality. However, values offering to the customers from organizations are not only the physical products. If organizations recognize that the market offerings are only physical products, it means that the organizations limit themselves to deliver the variety of value of market success of the new products. Especially in the current market condition, the competitiveness of the new products is increasing and getting harder. Therefore, organizations need to redefine the concept and methods of offering new products. Some of the market offerings are defined by only physical products, however some other market offerings are organized by by services. The introduced management concept is a type of seamless mixture approach. In the detail, the paper discusses the methods of strategic combination of products and services. In practically, how and how much it should be considered for the level of mixtures are important. Especially, integration method of new and current items including both product and service is introduced in this paper. With introduced new approach for a new “product with service” or “service with product” management concept, effective management methods are able to be designed.

Key Words: Industrial competitive strategy, Service management, Marketing management, Product management, Product development

1. Introduction

Observing and analyzing the market trend changes are the one of the keys for success. Especially concept creation and selection of the market offerings is very essential business activities. In this research, product management concept for the current market characteristics is considered. The traditional approach for the product development focuses mainly on products or services. Introduced management framework considers value of market offerings. In this section, first, as the research motivation, the necessity of new concept of product and service management is discussed. Then, the research purpose is described.

1.1 Research Background

Buying behavior of recent customer has been changing. Many types of products are in the market, in other words the components of the market offerings are different from of that of several years ago. Several reasons are recognized from the current market characteristics.

First, second, and third reasons are such as severe competitiveness, difficulties of continuity of tangible product development, and customer’s frequent changes of interests.

Also, market offerings have been changed in terms of goods and services. The levels of mixture of the both components are drastically changed in the recent years.

Moreover, “Maslow’s concept of pyramid of needs and related consuming characteristics” explains the current market movements. As shown in Fig. 1, consumers have a several types of reasons to purchase the products for satisfying the needs. The bottom of the pyramid is “Physiological needs” which are the needs to be alive. When the living needs are satisfied, security needs appears. After the secured living is guaranteed, people start to think about communication with others. Then, needs of communication with enjoyment come out. After all, self-realization and development emerge as new desire. The

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Maslow’s pyramid is also related with consuming characteris-
tics of buyers. Goods items are mainly required by the people at the bottom of the pyramid which is considering secure living. On the other hand, service items are expected at the top of the pyramid which is considering self and communication enjoyment.

Maslow’s pyramid and related consuming characteristics indicate that both service and goods are necessary as the market offerings. It implies that separation of service and goods is not effective method for developing market offerings.

Current concept of product development is generally considering physical products. The concept focuses on the product performance, quality, functions, and cost, etc. However, if it is think about the value delivering, there are no differences between goods and services. In this case, the product development concept should be redefined as the vale development concept.

1.2 Research Purpose

The research purpose is introducing the new concept of product management method. Traditional approach defines mainly the development concept of physical products. And, some others are defining the service development method. The major approach handles just one item type of service or product.

From the view of companies such as products manufactures and service providers, product and services are market offerings. It is one of the main approaches for obtaining the benefit. In this approach, product and services are starting from the companies and ending at the buyers.

If value based concept is considered, market offerings always contain the value. In this case, the value is recognized by the customers and expected benefit is received by buyers. Clearly, in the value based concept, product and service are starting from the customers and ending the customers via companies.

The research considers value which customers want, therefore value items are holding the benefit to the customers. There is no limitations whether products or services. The requirements of the value item are function of the benefit.

In this paper, first, differences of tangible and intangible items are demonstrated. For creating the value, it should be reviewed the characteristics and understand the differences of the service and product. Next, integration of tangible and intangible items is demonstrated.

After the value related topic is defined, growth strategy is reviewed. The traditional growth strategy is helpful for generating the new concept of growth strategy.

In the following sections, concept of service, growth strategy, and integrated benefit are introduced.

2. Concept of Services

The research focuses on the value of goods and services. There are several traditional concepts and methods for recognizing the both items as market offerings.

In this section, the major concepts are indicated and the both concepts are core components of generating the new approaches of the market offerings.

The services and goods have different characteristics. The major differences of services and products are shown in Table 1.

| Services | Goods |
|----------|-------|
| An activity or process | A physical object |
| Intangible | Tangible |
| Simultaneous production, and consumption: customers participate in production | Separation of production and consumption |
| Heterogeneous | Homogeneous |
| Perishable: cannot be kept in stock | Can be kept in stock |

Table 1 Differences of Services and Goods (Source: Desmet et al., 2013, p. 10[2])

In this research, items of products and services are considered as same level of the method of generating differentiation. In other words, products are able to be differentiated by either ways of adding product or service. Also, in the case of the service, the same framework is able to be applied.

Generic and expected benefits are the perceived benefit defined by the buyers, first. Generic benefit indicates offering the item of product or service for satisfying customer’s minimum requirements. Expected benefit points out the added items for the generic items. The adding item with generic benefit offers additional benefit for the buyers.
3. Integrated Products/Services
In this section, new management concept of market offerings is introduced. Before introducing the concept, current major concepts should be reviewed.

3.1 Growth Strategy
In the marketing area, Kotler [3] reviews Ansoff’s product-market expansion grid which is one of the major approaches of growth strategy. Ansoff has generated the growth strategy concept highlighting product and market. Table 2 illustrates the grid.

| Current Market / Buyers | Services                          | Goods                        |
|-------------------------|----------------------------------|------------------------------|
| 1. Market penetration strategy | 3. Product development strategy |
| New Market / Buyers     | 2. Market development strategy   | 4. (Diversification)         |

However, in this paper, buyers and items are used instead of the terms of markets and products. In the case of original framework, physical goods and large group of consumers might be emphasized. In the recent companies and market, both goods and services are evenly recognized as the market offerings. The term of item indicates wider selection of market offerings. Also, the term of buyers defines more specific and accurate target customers of the each company. In this case, the term of items implies product and service integrated items. Also, new item and new buyer should be defined.

New item are able to be classified two types such as up graded item and whole new item. First, up graded item is developed by incremental method such as adding something better. It shows that the new item is redesigned with better quality, higher performance, updated style, and/or lower price etc.

In the case of whole new items, it is very different from current items. The new one should be added totally different upgraded performance and functions. So the distinctiveness of new item is very simple to be recognized by the current and new buyer.

The new buyer is defined in several different methods, because it indicates all of the different types of buyers from current target segmented buyers. In many cases it is classified into two types of segmentation of geographic and demographic.

Especially, in this research, it is not separate product and service to define the growth strategy. So there are several combinations of the product/service items for growth methods. The detail explanation is found in the later section.

3.2 Growth Types
The four types of approaches of growth strategies are in the grid such as 1. Market penetration, 2. Market development, 3. Product development, and 4. Diversification.

Next, Ansoff’s strategies are reviewed with wider point of view for adapting current market condition.

First growth strategy is buyer penetration. Especially, after the growth stage of the product life cycle, the stage moves to the mature stage. The company offers the current items to the current buyers, because seeking and taking the new buyers are consuming time and cost.

Second, when the current buyers slow down the pace of repeated consuming behavior, the company needs to find the new buyers. Without new items, differentiated types of buyers are searched and promoted.

Third, company needs to consider producing new items, because current and new buyers are satisfied by current items. In other words, current items again move to the mature or decline stage of the product life cycle. Moreover, new customer interests are emerging. For responding and motivating the buyers, introducing the new items to the current buyers are required.

After the introducing the new items to the current market, diversification strategy is demonstrated as the fourth step by Ansoff. However, this research suggests different type of the fourth strategic approach such as “taking buyers penetration and development strategy”. It does not mean that diversification strategy is not sufficient in this time, but two types of lower risk strategy should be taken before higher risk diversification strategy.

Following section explains the diversification strategies and reason of why it has higher risks.

3.3 Diversification Strategy
The Ansoff’s diversification strategy is categorized into three types of strategies such as concentric, horizontal, and conglomerate. The methods of diversifications are clearly explained by Kotler [3].

Concentric diversification strategy is effective for seeking synergy result. Current and/or new technology and marketing methods applying current items are revised and arranged for developing new items.

In the case of horizontal diversification strategy, technological and marketing synergy effect is not considered. It just thinks about related items for cross selling approach. Therefore, peripheral items are developed as new items.

The third diversification strategy is conglomerate strategy. In this strategy, company handles the item which is very different from current offering items. It is difficult to obtain the synergy effect, however organization is able to move into the different item category with new buyers.

3.4 Strategy Selection with New Product
When company decided to develop new product, product development strategy is selected. Ansoff’s grid implies that after the strategy 3. Product development, diversification strategy is introduced as the next step.

However, different method of strategy selection is introduced in this paper. After taking the product development strategy, the process of 1. Market penetration strategy, 2. Market development strategy and 3. Product development strategy are suggested. In this case, product could be either product or service. Without taking the diversification strategy, product management failure risk is kept in lower level.

With new product development, the market penetration strategy is taken to the current market. It is in the product introduction stage of the product life cycle. By applying the marketing strategy, new product aims to reach the growth stage and maturity stage. Then, it keeps the maturity stage longer.

Unfortunately, when the new product is into the stage of decline, the target market should be changed for the new different target customers. In detail, market penetration strategy is ap-
plied again to the new market. New product in the new market also passes same stages of product life cycle such as introduction, growth, maturity, and decline. Finally, product withdrawal is considered and new product development strategy starts.

Considering product and service mixture, wider concept for new market offerings can be generated. Several types of differentiation strategies are created by utilizing tangible and intangible factors.

### 3.5 Management Factors of Items

Product and services hold the value which is the benefit of buyers. Chernev [5] introduced several product and service management factors. There are eleven factors (Table 3).

Some factors are suitable for both of product and service, but several factors are difficult to apply to the service items. It should be clarify the terminology of the management factors. Performance is related with feature which is the element of offering items. Product feature and service contents are type of performance factors.

| Factors for Value Management |
|-----------------------------|
| Performance                 |
| Consistency                 |
| Reliability                 |
| Durability                  |
| Compatibility               |
| Ease of use                 |
| Technological design        |
| Degree of customization     |
| Form                        |
| Style                       |
| Packaging                   |

Consistency means that offering service and product have uniformity. It could be product, facilities, and a way of service offering.

Reliability means trustworthiness. It indicates for example, safety, comfort, and trust and is offered by on time service and exact specification.

Durability is related with a period of time. Some products and services hold a certain period of time for consuming.

Compatibility shows connectivity with existing products and services. Offering products and services need to be friendly to the existing product and service systems.

Ease of use indicates user friendly characteristics with high level of operability. Product and service users want simple and easy system for operation and consuming.

Technological design means the selections of technology usage of the product and service. Considering new technology application might generate the solution which satisfies the customer’s new expectation.

Degree of customization shows the level of fitness between customer expectation and benefit of product/service. There are several types of marketing concept such as concept of product focused and customer focused. Either method are able to use, therefore it depends on companies product/service management policy.

Form indicates basic shape or structure of product and service. Customers are able to see before purchase a product. Even some service items also can be seen by customers before deciding on the purchase.

Style is not directly related with core benefit of the product and service. However, careful selection of the style is necessary. Style shows the characteristics of the product and service. Packaging is an external element of the core benefit and generic benefit. However, there are several functions of protecting, containing, agglomerating, preventing, convenience, information, and promoting.

For effective management of value factors, it should not consider separately between product and service. Some factors seem to be suited for product, however, factors are applicable for service also. By application of factors, it generates the characteristics and leads higher level of product/service competitiveness.

In the next section, practical new methods of the integration of items including product and service is introduced.

### 4. Integration of Items

In this section, it is discussed to identify the new item patterns applying the products and/or services. Product and services are major factors for producing new items (market offerings). Some of the products are consisted of only physical product. On the other hand, there are market offerings which are made by only services. Also, many market offerings contain both characters of products and services. What types of market offerings are considered and how it should be defined the effective integration of the both is considered in this section.

Once, product is introduced to the market, it takes the pattern of product life cycle model. It contains four types of stages of introduction, growth, maturity, and decline. Most of the market offerings arrive at decline stage as time goes on.

Company always considers the current stage of product life cycle, and introduces suited new product to the market. As the example of pattern of new items/market offerings, product service integration is introduced (Table 4).

| Table 4 Product Service Integration |
|-------------------------------------|
|                                      |
| New Product Item | Current Product Item | Current Service Item |
| New Service Item | Current Service with New Service | Current Product with New Product |
| New Service Item | Current Service with New Service | Current Service with New Product |

### 4.1 Product Items Integration

In the case of product integration, product/product item development is focused. In the case of manufacturer, there are several current products are already in the market, however new product development is typical and effective management option. Therefore, company selects the selection of “Current product with new product”.

Product/product item could be developed for several different sales types such as 1. Up-selling products, 2. Cross-selling products, and 3. Down-selling products.

Up-selling products deliver the benefit of up-grading the product to the customers. Customers receive the benefit of new product using itself or with current product. New function and/or upgraded performance are provided by adding new cross selling products.

Cross-selling products are known as add on. Many types of products require other products for operation. With cross selling products, customers receive the benefit of ease of use and convenience. After the purchasing the product, buyers are able to use in a short time without purchasing other required parts.
Down-selling products deliver the shrunk benefit of the original products to the customers. For some reasons, when customers are not able to purchase the original/standard product, down-selling products fill such type of needs and deliver the value and benefit. Several different approaches are practiced for product development management, however, the concept originated with selling pattern is introduced in this section. It is clearly understandable for both industries of product manufacturer and service providers.

4.2 Service Items Integration

Second is service integration which focuses service/service items. The selection of adding types of services is important. It is very similar strategy of the growth and the diversification. There are three types of strategies of concentric, horizontal, and conglomerate. The growth concept helps for identifying the adding items.

In the case of concentric, the purpose is upgrading and/or better usability. Customers receive the benefit of higher level of services. It could be ease of taking service and/or more customized services. Also, providing and adding the exclusive services are classified into here.

Horizontal diversification strategy indicates providing secondary services. The service may not be directly related to the original services. However, customers receive the benefit of the variety and ease of usage. The optional accessory services provide wider types of requirements and expectations.

Conglomerate diversification provides the services which are not related with original services. However, with careful selection of adding new services, it creates wider level of service system. From the customer’s point of view, reliability might be recognized by the customers, because the service provider offering service with conglomerate diversification strategy leads the condition of relatively-large and widely well known in the market. However, diversification of the business risk is also going on.

4.3 Product and Service Items Integration

Finally, integrated items contain both of product and service as the value focused market offerings.

Two types of combinations are in the grid such as current product with new service and current service with new product. The background concept of adding value and benefit for the current items is same as integrations of products and services. However the characteristics are slightly different.

In the case of current product with new services, the future plan of current product benefit and value should be identified. Because products are already created and in the market, customers have been already developed the product brand image. New services should be the task of accelerating the value delivering speed and expanding the delivering area. New services should be utilized as sales promotion tool.

In the case of current service with new product, two types of possible approaches are recognized as the management option such as product based service or service based product.

However, especially new technological trend forces to change the delivering the service in many cases. In this point, providing the service remains as the core benefit and value, therefore product would be secondary items. In the case of offering service system organization such as relatively large service provider is also in the same condition.

5. Summary

The research introduces the practical usage of tangible and intangible items. In many cases, management of product and service are separately considered. However, recent market condition is getting complicated, new management concepts of products and services are required for business success.

Customer preference trend change is one of the reasons of market condition change. In the market, several types of buyers are existed. New products were expected by the majority of customers in the past decades. After that time, manufacturers move into a service industry. Customers started to expect intangible items, because customers are easy to purchase the product every moment and place. The interests for the new products had started shrinking. After all, majority of customers are expecting and consuming tangible and intangible items at the same time.

Therefore, product management concept should be redefined with considering service management. In this paper, as a back ground concept, recent market condition change is discussed. Second, system of value and benefit is introduced. The designing of both development activities of product and service is making clarifying delivering value and concept to the customers.

Next, in the current market condition, the concept of growth strategies is necessary. New approach of the growth strategy based on Ansoff’s growth grid is discussed. In the original concept, diversification strategy is indicated, but different approaches are introduced. Instead of diversification strategy, repeated strategy of market penetration strategy, market development strategy, and product development strategy is suggested. One of the main reasons of the new approach is offering items with considering both types of product and service to the wider market. Effective combination of the tangible and intangible items expands marketing potential.

Also, management factors are introduced. For the operation of growth strategy, management factors should be identified. Introduced factors are closely related with delivering value and benefit to the customers. Strategic selection and combination of the factors are identified for the practical application.

Finally, methodology for product service integration is introduced in the last section of the paper. The grid indicates the pattern of combination of product of current and new, and items of tangible and intangible. The concept indicates the product/service development method. It is not considered separately, both product and service hold same level of potential for consideration.

In this paper, conceptual approach for product and service management is introduced. The concept considers that both product and service hold same potential for management factor selections. In other words, the concept suggests that manufacturers also should consider both options of product and service. On the other hand service providers should consider product as the new offering item selection. By considering with wider view, applying suggested management concept is enabled for strategic product/service management.
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