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# UNIT 2 THE PRODUCT MANAGEMENT PROCESS

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## Objectives

After reading this unit you should be able to:

- discuss the nature and scope of product management
- differentiate between types of product management systems
- develop a suitable product management system for an organisation

## Structure

- 2.1 Introduction
- 2.2 The Product Management Function
- 2.3 Product Management Decisions
- 2.4 Product Manager's Management System - Scope
- 2.5 The Need for a Product Management System
- 2.6 Summary
- 2.7 Self Assessment Questions
- 2.8 Further Readings

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## 2.1 INTRODUCTION

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Product forms the most tangible expression offered by the firm which the consumers buy to satisfy their needs and wants thereby deriving consumer satisfaction. The firms product management objectives comprising the product policy and strategy therefore become core determinants of a successful overall marketing strategy.

Product management decisions encompass all decisions incidental to creating developing maintaining innovating and presenting the optimum bundle of need satisfiers that the organisation is capable of offering. This unit discusses the scope of the product management function and describes the ways in which different product management systems are organised.

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## 2.2 THE PRODUCT MANAGEMENT FUNCTION

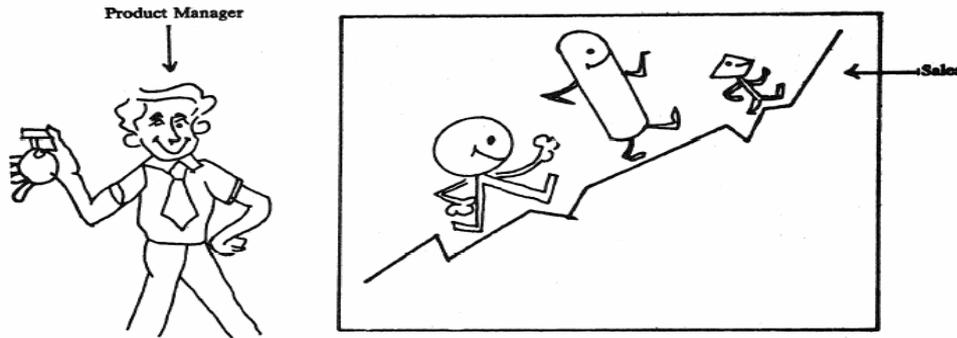
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Product management includes a wide range of diverse functions. The firms bread and butter comes from the sales of its products. The firm may develop and offer a number of products in various dimensions (shape, size, pack, etc.) catering to different market segments. The success of such firms will largely depend and decide on the market acceptability and positive market response for the products.

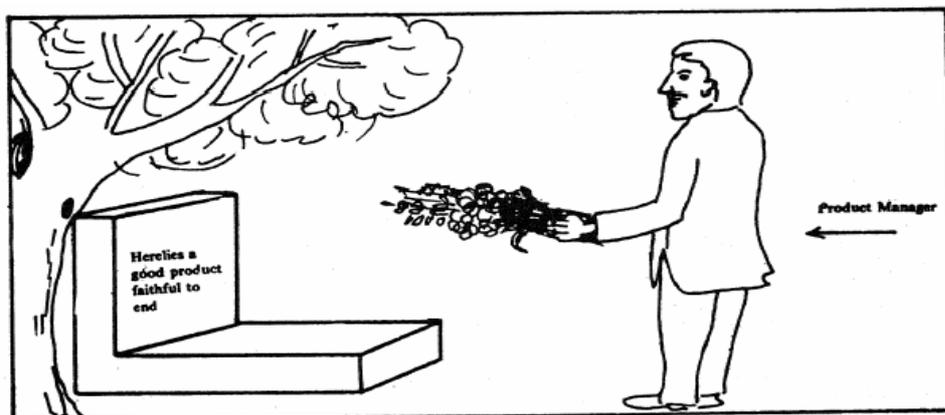
Strategic planning of the product mix and setting objectives are the core functions of product management. These includes plans for introducing new products, continuing or discontinuing a product, phasing out a product. Ideally from the point of sound economic health of a firm it should produce and promote those products that earn the highest rate of return on investment. Besides the firm may also decide to offer certain low profit or no profit products in view of public interest. At times the sale of a product with low returns on investment may be promoted as it may help to promote the sales of other



high profit earning products to complete a full product range. The function of product mix decisions to achieve overall sales performance can be illustrated as under:



Besides, planning the existing product mix, the product management function must also concern itself with the management of new products in accordance with shift in customer patronage, competition and technological changes. But, it is important to note that, in the excitement of introducing new products the old products do not die prematurely. Hence product life cycle of the products is to be closely and continuously monitored in the direction which gives the most desirable mix of today's bread winners; tomorrow's bread winners and yesterday's bread winners. The product manager should not however, portray any kind of reluctance and phase out those products which have become absolutely non-profitable, afterall, products are like human beings, young Today but old and obsolete Tomorrow.



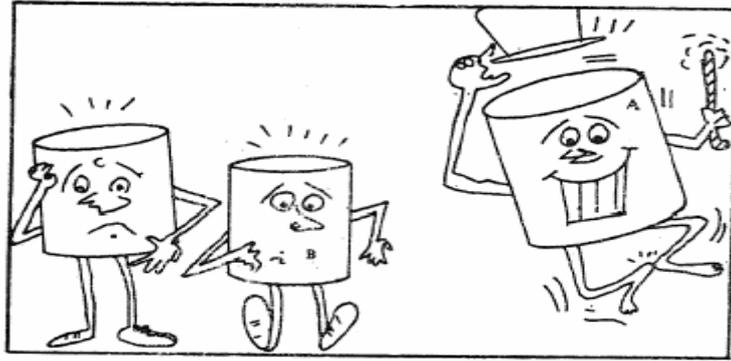
Deciding and achieving the desired and right product mix for the organisation is of paramount importance. At the same time these products in the mix need to be positioned appropriately. Product positioning forms the next important core activity of product management. Thus, product must have individuality and identity which distinguishes it from competing brands. The uniqueness of the benefits so derived from the product needs to be stressed and focussed. To know more about this consumer perceptions regarding the product are studied. The success of product management essentially depends upon the positioning of the products to the right target market.

The product manager must always be in search of newer opportunities -- introduction and product line there may be more than one product manager handling one or more than one addition of new products in the existing range may not be enough. A diversification in totally different and untried areas may be needed. Strategic product management decisions would thus involve product diversification as well.

From the above reading it follows that the scope of product management is ample and wide. You may wonder how can the product manager handle so many functions? Actually depending on the size of the company, the number of products it has and the width of the



Product line there may be more than one product manager handling one or more than one product.



Product Positioning

Also, the strategic decisions regarding new product introduction/diversification may be the joint responsibility of all product managers concerned or a person senior to them. Having understood the scope of product management let us now take a break for an activity to apply the same.

**Activity 1**

Below are given two different types of organisations and a set of activities. Tick off only those activities which you feel will be a part of product management in each of these organisations.

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**Organisation 1**

Consists of a single product which in manufacturers and sells in a competitive market all over India. Which activities do you think form a part of the product management function? Tick them.

- 1). Distribution
- 2). Production
- 3). Product positioning
- 4). Advertising
- 5). Research & Development
- 6). New Product Introduction

**Organisation 2**

A multi product company with ten different products catering to different market segments each headed by a different product manager. What are the activities of the product manager of the group?

- 1). Product mix decisions
- 2). Distribution
- 3). Research & Development
- 4). Allocation of funds for marketing amongst the ten product groups
- 5). New Product Introduction
- 6). Diversification
- 7). Advertisement policy
- 8). Production policy

**2.3 PRODUCT MANAGEMENT DECISIONS**

Exhibit 1 given below gives an overview of the type of decision participated in by the product managers, in respect of management of existing products. Exhibit 2 shows the extent of participation of the product manager in significant marketing decision.

**Exhibit-I The Product Manager's significant management task**

**The Product Manager**

Management Task	Has sole responsibility for seeing that the task is completed	Plays a major role in seeing that the task is completed	Plays a minor role in seeing that the task is completed
Establishing marketing objectives for your product			
Planning the marketing activities to achieve product objectives			
Determining expense budget, totally and for each marketing activity			
Scheduling the marketing activities			
Establishing measurements and control review procedures			
Communicating plan to assure understanding by those who will implement			
Monitoring Progress & effectiveness of performance according to standards			
Specifying corrective action when plan & performance are at variance			
End of year report to management			
Post mortem plan reevaluation for earning purposes			

Source: Harvard Business Review Vol. 53, Jan-February, 1975

**Exhibit-II The Product Manager's significant marketing decisions**

**Product Manager's role in decision making**

Marketing decision areas	Is the sole decision maker	Is a major participant in decision making	Is a minor participant in decision making	His opinion is sometimes asked for prior to decision making made by other	Plays no role in the decision making process
Product					
Packing					
Pricing					
Advertising theme or copy					
Advertising Media					
Marketing research					
Type or number of promotions					
Timing or Promotions					
Instructions of sales force					
Instruction to agents or brokers					
Size of sales force					



The product management decisions, as you have gathered from the previous sections include:

- **Product Mix Decisions**

The product mix concept refers to the total products offered by an organisation while a product line is a group of products within the product mix that can be classified together on account of criteria like customer needs markets served, channel used or technology employed. In order to decide upon the product mix the product manager also has to take decision regarding width, length, depth and consistency of the product line. Deciding upon the optimality of product mix requires in depth analysis of the profitability, marketability, market share, long term prospects of the product, among other things. Several approaches, including the product portfolio approach have been developed to decide upon optimum product mix. These have been discussed in the next section.

- **Product Innovation/Modernisation Decision**

Innovation and or modernisation of the existing product line is another key concern of the product managers. In some cases the product line length may be adequate but some of the products may have lost competitive edge because of technological obsolescence. Which in turn would be reflected in the overall product returns. The product line would then need to be modernised or substantially innovated. One important issue is, whether to overhaul the complete line all at once or go product by product. The latter approach provides for gauging the consumer and dealer reactions before the entire modernisation programme is put into operation. The disadvantage on the other hand is competitor reaction who may retaliate by copying the modification or coming out with better features and improvements.

- **Product Line Pruning/Product Elimination/Product Phasing Decisions**

In many organisation weak products are allowed to be continued in the product line simply because of emotional or sentimental reasons. These products become drains on managerial line and other resources. A number of costs hidden in the continuance of these products are never fully estimated. These costs may include costs associated with varying inventory levels, frequent price reductions, uneconomic production runs and the opportunity cost of investing in new products because of resources being tied up in the retention of weak products. Product line pruning or product elimination decisions therefore have to be taken to prevent unproductive use of resources.

- **New Product Decision/Diversification Decisions**

One of the most common product policy problems relates to the addition of new products to the existing product line. A rationale for the diversification introduction of new products may emerge out of marketing needs, company's resources and competences, marketing, production or financial considerations, and the contribution that the new product can make to the corporate objective. Even though the development of new products is a decision fraught with very high risks, continuous innovations are the most reliable key to sustained growth. The addition of new products to the firm's product line can be done either by internal development or external acquisition. Block 3 of this course is devoted to the management of new products.

- **Branding and Packaging Decision**

Branding is one of the ways of imparting product distinctiveness and helping the product to attain a specific identity in the consumer's mind. It increases consumer awareness, improves chances of repeat purchases, facilitates the inculcation of a product image and helps adoption of new products. The issues in branding are whether to use a family brand or individual brand manufacturers brands or distributors brand or separate family names for the different product lines in case of a highly diversified firm. Important marketing and cost consideration dictate the choice of the above alternatives as you will study in unit 14 of this course.

Packaging, defined as the activity of designing and producing the container or the wrapper for a product, can play a minor or a major role in product policy depending upon the product nature and market requirements. In recent times packaging has become an effective marketing tool. Developing an effective package for product requires a number of steps like deciding upon the packaging concept, developing the package designs and



package testing. These steps and the considerations involved in packaging are discussed in detail in unit 11 of this course.

Having had an overview of the products management function we shall now examine each of its sub-function in greater detail. Let us first study the product mix decision.

### **Product Mix Decisions**

First of all, let us make it clear that product mix decisions are of greater importance to diversified companies and the theory presented here is more relevant to such companies. The approach suggested for product mix decisions is the product portfolio approach which is presented in brief. However, unit 6 of this course is completely devoted to Product Portfolio

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## **2.4 PRODUCT MANAGER'S MANAGEMENT SYSTEM SCOPE**

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Product is central to the success of the firm. With rapid changes taking place in technology nature of competition and consumer perceptions, product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product mix on a continuous basis in order to achieve their growth objectives. As such one notices not only the proliferation of brands but also the increasing need to manage products by using specialists. Product management satisfies a genuine need in large multiproduct companies, divisions or other business where it is otherwise impossible for marketing managers to plan and control closely the profitability of individual major products on a continuing basis.

Let us now proceed to answer the question, 'What should be the role of the product manager in the product management system?' Three common conceptions that exist are that the product manager is:

- a little general manager' or 'entrepreneur',
- coordinator of activities performed by others,
- an assistant for the product real managers-top management.

The job of a product manager will vary with respect to the number and type of distribution channels used, the extent to which each manager influences his products marketing budget, the number of product managers in the organisation and other such factors. In addition, product management variations occur from industry to industry with respect to the responsibility and authority in major decision making areas. Let us focus at these aspects of a product manager's job.

### **Responsibility and Authority**

Product managers are involved in three major types of activities: i) significant management tasks performed to some degree by all product managers, ii) marketing decisions, iii) influence on marketing budget.

#### **i) Management Tasks**

These are associated with the administrative process - beginning with the establishment of objectives and ending with the year-end report to management and a re-evaluation of the effective news of the marketing plan employed during the previous year. Exhibit 1 gives an overview of management tasks performed by the Product Manager.



## ii) Marketing Decisions

Product managers are not the real decision makers for strategic marketing decisions. It is the job of the marketing directors. The greatest participation of the product manager is with respect to the number of timing of promotions. Exhibit-II gives an overview of the decision making authority of the product manager across a spectrum of marketing decisions. In a growing company, however, the product manager takes over most of these functions.

## iii) Budget and Marketing Plans

Almost in all types and size of organisation, the product manager has a definite say in the annual marketing budget for the product that he manages. This is because probably he is more involved with the day-to-day implementation of the marketing plan set out.

Having had a good look at the major areas of product management let us now seek to find out under what conditions will a formal product management system be justified.

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## 2.5 THE NEED FOR A PRODUCT MANAGEMENT SYSTEM

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- 1) The product management concept of organisation is indispensable and apt when a multi-product company has different products whose individual annual volumes are neither so small as to be insignificant nor so large that they begin to take on life or death importance. Companies with only one or two major products usually find the functional form of organisation more suited to their needs.

For example, a large soft drink manufacturer abandoned its product management system when it realised that it was basically an organisation with one high volume and a few low volume products. Since the lesser products were related to the major one, all of them could be handled by a single product manager.

- 2) The Product manager's responsibility and authority depend on a number of management levels involved in the decision-making and plan approval process. These are indicated in Exhibit-III. It can be seen that the product management system will serve no purpose when lengthy communication channels are involved, because it will unnecessarily delay the decision-making process.

### Changing Role of the Product Manager

From the above analysis it is clear that the product management system should be flexible and the role and scope of a product manager should allow manouvering although it should be well-defined.

Flexibility in the task assigned to product manager is required under developments like:

- a) changes in the number and type of elements employed in the marketing mix,
- b) changes in the number of product managers employed within the same organisational unit, and
- c) when changes occur in the resources or support services required for the marketing elements located internally or externally. Let us consider each of these separately.
  - i) When the number and combination of elements employed in the marketing mix change, the product managers job also changes. If a company starts de-emphasising advertising in favour of a combination strategy of better margins for the trade and more consumer promotion as in case of consumer durables, the kind of people the product manager will be working with and the skills required for negotiation will differ.
  - ii) When a company expands its product-line some support service used by different products will be the same. However, all product managers may not possess the technical skills to use the support services requiring thereby a team of in-house specialists. Market research and advertising are two examples of in-house staff developments which can grow as the company becomes more marketing oriented.



The product managers being less involved in technical aspects can concentrate more on strategic areas and issues.

- iii) A product manager's role is also shaped by the support groups controlled by him. If he uses an internal resource group it will be shared by other product managers also reducing his overall influences on it. e.g. a sales force is an internal resource and no product manager can directly influence it as its time must be apportioned between individual products in accordance with the overall strategy of the company.
- iv) Lastly, the product managers job profile also changes as his product moves through various stages of its life cycle or as shifts occur in the environment in which his product is marketed. The new product requires heavy emphasis on developing trade channel support simultaneously with consumer awareness and acceptance whereas an established product would require more of a maintenance and monitoring effort on the part of the product manager.

The role of a product manager is thus very versatile and subject to changes with the growth in size of the organisation or changes in environment or even changes in the overall marketing strategy. This section has hopefully given you a fair idea of the product management system and its constituents.

**Activity 2**

Study the product management system of a single product company vis-a-vis a multi product company with respect to the role of the product manager. Bring out the differences and the reasons for the same.

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**2.6 SUMMARY**

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In this unit we have essentially identified the role of the product manager and the need for it to change from situation to situation. Product mix decisions form an integral part of the product management function. The product portfolio approach is a tool to guide the product manager in deciding about the optimum product mix.

Although it has its limitations it can serve a useful purpose if the parameters are defined properly. Last but not the least, a detailed description of where the product manager fits into the product management system is given. This is necessary to understand the function of the product manager better and define his tasks in more clear terms and allow him. to work more effectively in the fast changing product/market environment there should be no ambiguity with respect to the tasks of individual product managers.

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**2.7 SELF ASSESSMENT QUESTIONS**

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- 1) Discuss the scope, relevance and, significance of product management function in the current market scenario.
- 2) Describe the changing role of product manager in changing product/market environment.



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## 2.8 FURTHER READINGS

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Kotler, Phillip, 2002 Marketing Management, Prentice Hall of India Pvt. Ltd., New Delhi.

Harvard Business Review Vol. 53 January, February, 1975, Shifting Role of the Product Manager by Richard Crewett & Stanley Stasch.

Journal of Marketing, April, 1977, Diagnosing the Product Portfolio by George Day