

6.1: What Composes an Offering?

Learning Objectives

1. Distinguish between the three major components of an offering—product, price, and service.
2. Explain, from both a product-dominant and a service-dominant approach, the mix of components that compose different types of offerings.
3. Distinguish between technology platforms and product lines.

Product, Price, and Service

Most offerings consist of a product, or a tangible good people can buy, sell, and own. Purchasing a classic iPod, for example, will allow you to store up to forty thousand songs or two hundred hours of video. The amount of storage is an example of a feature, or characteristic of the offering. If your playlist consists of twenty thousand songs, then this feature delivers a benefit to you—the benefit of plenty of storage. However, the feature will only benefit you up to a point. For example, you won't be willing to pay more for the extra storage if you only need half that much. When a feature satisfies a need or want, then there is a benefit. Features, then, matter differently to different consumers based on each individual's needs. Remember the value equation is different for every customer!

An offering also consists of a price, or the amount people pay to receive the offering's benefits. The price paid can consist of a one-time payment, or it can consist of something more than that. Many consumers think of a product's price as only the amount they paid; however, the true cost of owning an iPod, for example, is the cost of the device itself plus the cost of the music or videos downloaded onto it. The total cost of ownership (TCO), then, is the total amount someone pays to own, use, and eventually dispose of a product.

TCO is usually thought of as a concept businesses use to compare offerings. However, consumers also use the concept. For example, suppose you are comparing two sweaters, one that can be hand-washed and one that must be dry-cleaned. The hand-washable sweater will cost you less to own in dollars but may cost more to own in terms of your time and hassle. A smart consumer would take that into consideration. When we first introduced the personal value equation, we discussed hassle as the time and effort spent making a purchase. A TCO approach, though, would also include the time and effort related to owning the product—in this case, the time and effort to hand wash the sweater.



Figure 6.1: Neiman Marcus sells sweaters for over \$1,000! But that's just the purchase price. The total cost of ownership would also include the cost of having the sweater professionally cleaned or the value of the time and effort needed to hand wash it. Lukasz Dunikowski – [Cashmere Sweater](#) – CC BY 2.0.

A service is an action that provides a buyer with an intangible benefit. A haircut is a service. When you purchase a haircut, it's not something you can hold, give to another person, or resell. "Pure" services are offerings that don't have any tangible characteristics

associated with them. Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a DVD of the event). Yes, a plane is required, and it is certainly tangible. But it isn't the product—the jump is. At times people use the term “product” to mean an offering that's either tangible or intangible. Banks, for example, often advertise specific types of loans, or financial “products,” they offer consumers. Yet truly these products are financial services. The term “product” is frequently used to describe an offering of either type.

The intangibility of a service creates interesting challenges for marketers and buyers when they try to judge the relative merits of one service over another. An old riddle asks, “You enter a barbershop to get a haircut and encounter two barbers—one with badly cut hair and the other with a great haircut. Which do you choose?” The answer is the one with the badly cut hair as he cut the hair of the other. But in many instances, judging how well a barber will do before the haircut is difficult. Thus, services can suffer from high variability in quality due to the fact that they are often created as they are received.

Services usually also require the consumer to be physically present or involved. A haircut, a night in a hotel, a flight from here to there—all require the consumer to be physically present and consumption of the service is not separate from the creation of the service. Unlike a physical product, which can be created and purchased off a shelf, a service often (but not always) involves the consumer in its creation.

Another challenge for many services providers is that services are perishable; they can't be stored. A night at a hotel, for example, can't be saved and sold later. If it isn't sold that day, it is lost forever. A barber isn't really paid for a haircut (to use the riddle) but for time. Services have difficult management and marketing challenges because of their intangibility.



Figure 6.2: Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a DVD of the event). Arbana/ë ll. – [Skydive SWOOP, Dundas, On](#) – CC BY-NC-ND 2.0.

Many tangible products have an intangible service components attached to them, however. When Hewlett-Packard (HP) introduced its first piece of audio testing equipment, a key concern for buyers was the service HP could offer with it. Could a new company such as HP back up the product, should something go wrong with it? As you can probably tell, a service does not have to be consumed to be an important aspect of an offering. HP's ability to provide good after-sales service in a timely fashion was an important selling characteristic of the audio oscillator, even if buyers never had to use the service.



Figure 6.3: Sport Clips is a barbershop with a sports-bar atmosphere. The company's slogan is So, although you may walk out of Sport Clips with the same haircut you could get from Pro Cuts, the experience you had getting it was very different, which adds value for some buyers. Wikimedia Commons – [SportClips – Hillboro, Oregon](#) – CC BY-SA 3.0.

What services do you get when you purchase a can of soup? You might think that a can of soup is as close to a “pure” product devoid of services that you can get. But think for a moment about your choices in terms of how to purchase the can of soup. You can buy it at a convenience store, a grocery store like Publix, or online. Your choice of how to get it is a function of the product’s intangible service benefits, such as the way you are able to shop for it.



Figure 6.4: Even what seems like a product like a can of soup can have an intangible service component associated with it, such as the way you are able to shop for it—say, at a convenience store, a grocery store like Publix, or perhaps online. Tony & Wayne – [Soup](#) – CC BY-NC 2.0.

The Product-Dominant Approach to Marketing

From the traditional product-dominant perspective of business, marketers consider products, services, and prices as three separate and distinguishable characteristics. To some extent, they are. HP could, for example, add or strip out features from a piece of testing equipment and not change its service policies or the equipment’s price. The product-dominant marketing perspective has its roots in the Industrial Revolution. During this era, businesspeople focused on the development of products that could be mass produced cheaply. In other words, firms became product-oriented, meaning that they believed the best way to capture market share was to create and manufacture better products at lower prices. Marketing remained oriented that way until after World War II.

The Service-Dominant Approach to Marketing

Who determines which products are better? Customers do, of course. Thus, taking a product-oriented approach can result in marketing professionals focusing too much on the product itself and not enough on the customer or service-related factors that customers want. Most customers will compare tangible products and the prices charged for them in conjunction with the services that come with them. In other words, the *complete* offering is the basis of comparison. So, although a buyer will compare the price

of product A to the price of product B, in the end, the prices are compared in conjunction with the other features and services of the products. The dominance of any one of these dimensions is a function of the buyer's needs.



Figure 6.5: King Ranch Chicken is a casserole made with chicken, RO*TEL tomatoes, cream of mushroom soup, and cream of chicken soup. If you eat the casserole at your school's cafeteria, you are consuming both a product and a service. Consequently, separating the product from the service is often an artificial exercise. Steven Labinski – [King Ranch Chicken](#) – CC BY-NC-ND 2.0.

The advantage of the service-dominant approach is that it integrates the product, price, and service dimensions of an offering. This integration helps marketers think more like their customers, which can help them add value to their firm's products. In addition to the offering itself, marketers should consider what services it takes for the customer to acquire their offerings (e.g., the need to learn about the product from a sales clerk), to enjoy them, and to dispose of them (e.g., someone to move the product out of the house and haul it away), because each of these activities create costs for their customers—either monetary costs or time and hassle costs.

Critics of the service-dominant approach argue that the product-dominant approach also integrated services (though not price). The argument is that at the core of an offering is the product, such as an iPod, as illustrated in Figure 6.6. The physical product, in this case an iPod, is the core product. Surrounding it are services and accessories, called the augmented product, that support the core product. Together, these make up the complete product. One limitation of this approach has already been mentioned; price is left out. But for many products, this conceptualization can be helpful in bundling different augmentations for different markets.

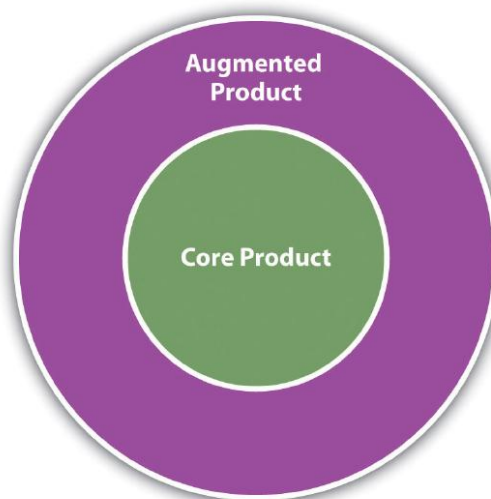


Figure 6.6: A core product is the central functional offering, but it may be augmented by various accessories or services, known as the augmented product.

Customers are now becoming more involved in the creation of benefits. Let's go back to that "pure" product, Campbell's Cream of Chicken Soup. The consumer may prepare that can as a bowl of soup, but it could also be used as an ingredient in making King Ranch Chicken. As far as the consumer goes, no benefit is experienced until the soup is eaten; thus, the consumer played a part in the creation of the final "product" when the soup was an ingredient in the King Ranch Chicken. Or suppose your school's cafeteria made King Ranch Chicken for you to consume; in that case you both ate a product and consumed a service.



Figure 6.7: Few consumers could have envisioned that a new type of adhesive would lead to the development of a product as successful as Post-it Notes. Dean Hochman – [post-it notes](#) – CC BY 2.0.

Some people argue that focusing too much on the customer can lead to too little product development or poor product development. These people believe that customers often have difficulty seeing how an innovative new technology can create benefits for them. Researchers and entrepreneurs frequently make many discoveries and then products are created as a result of those discoveries. 3M's Post-it Notes are an example. The adhesive that made it possible for Post-it Notes to stick and restick was created by a 3M scientist who was actually in the process of trying to make something else. Post-it Notes came later.

Product Levels and Product Lines

A product's technology platform is the core technology on which it is built. Take for example, the iPod, which is based on MP3 technology. In many cases, the development of a new offering is to take a technology platform and rebundle its benefits in order to create a different version of an already-existing offering. For example, in addition to the iPod Classic, Apple offers the Shuffle and the Nano. Both are based on the same core technology.

In some instances, a new offering is based on a technology platform originally designed to solve different problems. For example, a number of products originally were designed to solve the problems facing NASA's space-traveling astronauts. Later, that technology was used to develop new types of offerings. EQyss's Micro Tek pet spray, which stops pets from scratching and biting themselves, is an example. The spray contains a trademarked formula developed by NASA to decontaminate astronauts after they return from space.

A technology platform isn't limited to tangible products. Knowledge can be a type of technology platform in a pure services environment. For example, the "bioesthetic" treatment model was developed to help people who suffer from TMJ, a jaw disorder that makes chewing painful. A dentist can be trained on the bioesthetic technology platform and then provide services based on it. There are, however, other ways to treat TMJ that involve other platforms, or bases of knowledge and procedures, such as surgery.

Few firms survive by selling only one product. Most firms sell several offerings designed to work together to satisfy a broad range of customers' needs and desires. A product line is group of related offerings. Product lines are created to make marketing strategies more efficient. Campbell's condensed soups, for example, are basic soups sold in cans with red labels. But Campbell's Chunky is a ready-to-eat soup sold in cans that are labeled differently. Most consumers expect there to be differences between Campbell's red-label chicken soup and Chunky chicken soup, even though they are both made by the same company.

A product line can be broad, as in the case of Campbell's condensed soup line, which consists of several dozen different flavors. Or, a product line can be narrow, as in the case of Apple's iPod line, which consists of only a few different MP3 devices. How many offerings there are in a single product line—that is, whether the product line is broad or narrow—is called line depth. When new but similar products are added to the product line, it is called a line extension. If Apple introduces a new MP3 player to the iPod family, that would be a line extension. Companies can also offer many different product lines. Line breadth (or width) is a function of how many different, or distinct, product lines a company has. For example, Campbell's has a Chunky soup line, condensed soup line, Kids' soup line, Lower Sodium soup line, and a number of nonsoup lines like Pace Picante sauces, Prego Italian sauces, and crackers. The entire assortment of products that a firm offers is called the product mix.

As Figure 6.9 shows, there are four offering levels. Consider the iPod Shuffle. There is (1) the basic offering (the device itself), (2) the offering's technology platform (the MP3 format or storage system used by the Shuffle), (3) the product line to which the Shuffle belongs (Apple's iPod line of MP3 music players), and (4) the product category to which the offering belongs (MP3 players as opposed to iPhones, for example).

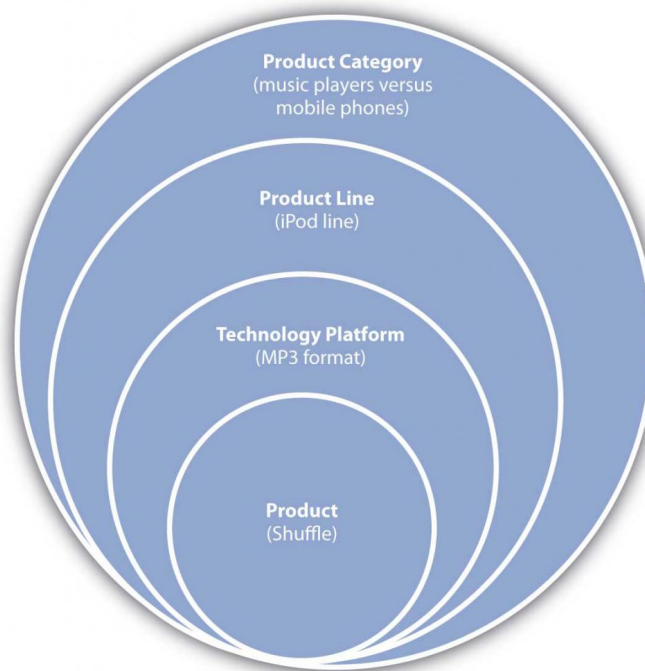


Figure 6.9: Product Levels. So how does a technology platform become a new product or service or line of new products and services? In another chapter, we take a closer look at how companies design and develop new offerings.

Key Takeaway

Companies market offerings composed of a combination of tangible and intangible characteristics for certain prices. During the Industrial Revolution, firms focused primarily on products and not so much on customers. The service-dominant perspective to marketing integrates three different dimensions of an offering—not only the product but also its price and the services associated with it. This perspective helps marketers think more like their customers, which helps firms add value to their offerings. An offering is based on a technology platform, which can be used to create a product line. A product line is a group of similar offerings. A product line can be deep (many offerings of a similar type) and/or broad (offerings that are very different from one another and cover a wide range of customers' needs). The entire assortment of products that a company offers is called the product mix.

Review Questions

1. How do the product-dominant and service-dominant approaches to marketing differ?
2. Do “product-dominant” and “product-oriented” mean the same thing?
3. What is the difference between a technology platform and a product line?
4. Does a product line have to be built on one technology platform?
5. What is the difference between product depth and product breadth?

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