

# Product Strategy for Small Manufacturers in Japan

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## Preface

Competitive strategy allows companies to arouse brand demand and develop business competition to its advantage by adapting afore-mentioned marketing 5P's to the desires and characteristics of customers better than competitors. It aims to expand market share in the business domain of “market penetration,” a term used in growth strategy.

Each of the competitive strategies presented below can be enhanced into an overwhelming competitive advantage by further strengthening any one of, or several of these components, in a proper combination. The cases presented in the individual section will include concrete policies.

Competitive strategy has eight sub-strategies; ① product differentiation strategy, ② market segmentation strategy, ③ new product strategy, ④ product life cycle strategy, ⑤ price strategy, ⑥ promotion strategy, ⑦ channel strategy, and ⑧ physical distribution strategy.

As for small manufacturers, to establish a major business domain, they must target a niche market and supply it with highly competitive products. To identify a niche market and avoid unnecessary competition with large enterprises, they should apply market segmentation strategy. Also, to satisfy the needs of different groups of customers they should conduct market segmentation strategy.

Furthermore, their products must be ingeniously differentiated from competitors if they are to be sufficiently competitive and obtain a sizable market share within the niche market. This requires skillful execution of product differentiation strategy.

Accordingly, when small manufacturers establish their overwhelming competitive advantage, they must carry out two kinds of competitive strategies, market segmenta-

tion and product differentiation, as core strategies. They must develop them ingeniously as well as harmoniously with six other strategies.

Product life cycle strategy, one of the eight competitive strategies, is related to the other seven, so it will be explained in another paper, while as ①, ② and ③ are directly related to the product, they will be discussed here.

## Section 1 Product Differentiation Strategy

### 1 Concept of product

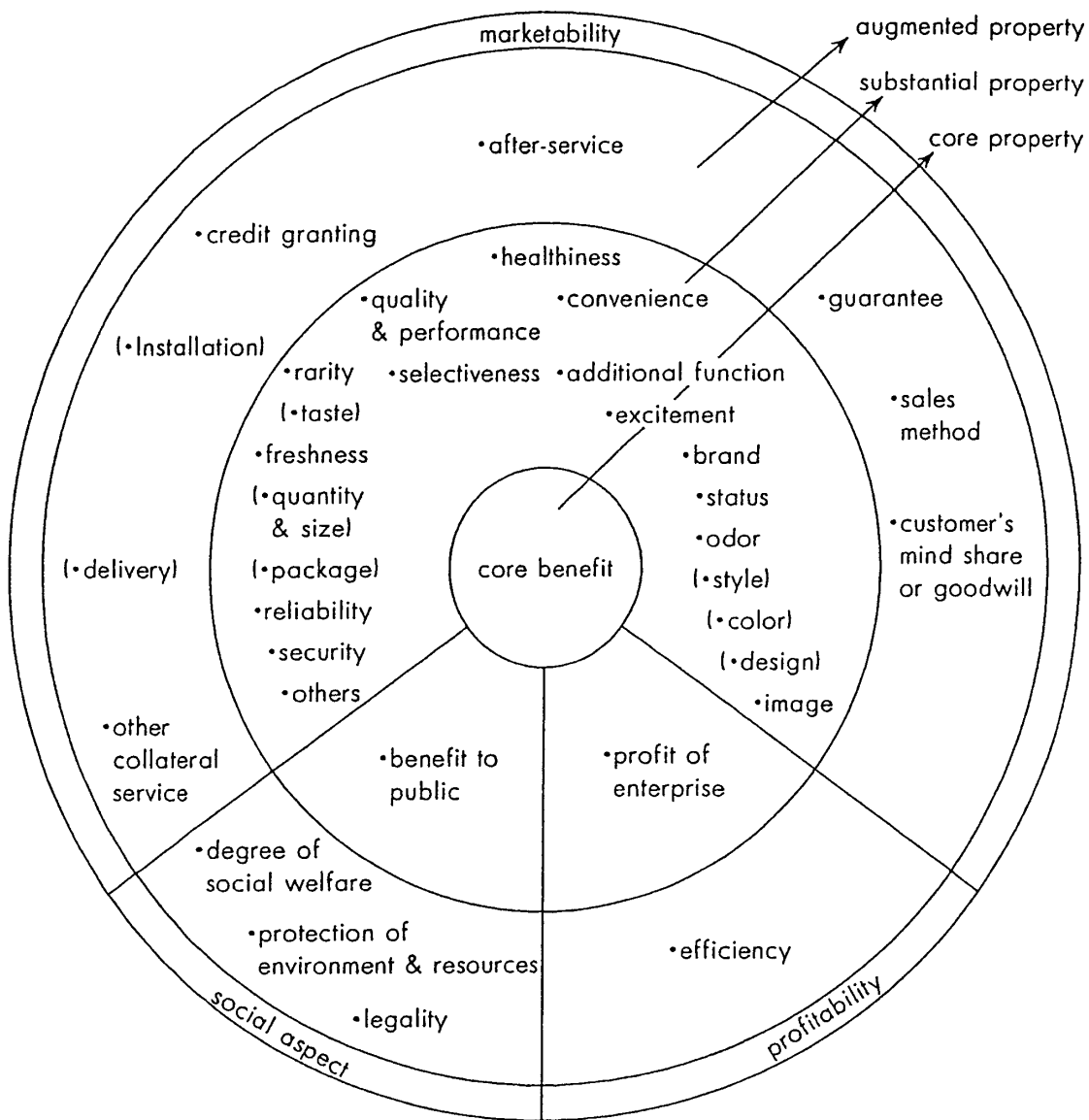
There are many kinds of products, i.e. “tangible goods & intangible goods,” “industrial goods & consumer goods” and their combinations. However, they have a general function in common for the target market, the creation or enlargement of “customer satisfaction.” The “property” of the product is the main source of “customer satisfaction,” and so the fundamentals of the product property may be said to exist in their “marketability.” Meanwhile, we must not forget there is this aspect of modern society which suggests that the product cannot gain real customer satisfaction unless its properties take into consideration social welfare issues and preserve the environment for the benefit of the general public.

Moreover, since the product is produced and sold by a profit-making enterprise, it obviously must be profitable.

Accordingly, the product can be said to be the medium for giving customer “satisfaction” and the enterprise “profit,” consisting of three types of properties : marketability, social aspects and profitability.

A further study of the function of a product reveals that the product consists of three strata of properties, the “core property,” the intrinsic property of the product, the “substantial property,” the accompanying and product-shaping property, and the “augmented property,” the additional property comprising mostly services as a means of strengthening the marketability and realizing the social aspect and profitability.

Figure 4-1 is a concept that puts together the above-mentioned concepts of the product<sup>1)</sup>.



Note : ( ) applies only to tangible goods.

Figure 1 The Concept of the Product in This Book

## 2 Concept of Product Differentiation Strategy

Product differentiation strategy is the policy of an enterprise distancing competitors in the spheres other than the price policy, such as product planning as a main object, sales promotion, channel and physical distribution, in order to get customers to prefer its products over competitors.

For an understanding of its characteristics, let me review the concepts of some theorists as follows:

(1) Concept of Product Differentiation Strategy by R. Buskirk<sup>2)</sup>

R. Buskirk considers that an enterprise's most important competitive advantage is displayed when it is added to the product, and points out that the effect is shown by adding to its product some feature not found in the products of other corporations.

And, the more significant the exclusive features prove to be for customers, the more important role the competitive advantages will play for the success of the enterprise. However, the more effective the competitive advantages are, a greater danger exists that they can be quickly imitated by its competitors and advantages eroded, unless, they are effectively protected by patents, etc. Generally, he says, the competitive advantages found in product differentiation fail to prove remarkable as a result of companies' efforts only to imitate competitors, not surpass them.

(2) Davis's Concept of Product Differentiation<sup>3)</sup>

According to K. R. Davis, whatever form a new product may have, an enterprise must decide how much differentiation it will incorporate in the product. Generally, an enterprise pursues maximum differentiation. Because, by doing so, it can set price freely and obtain a larger profit.

Also, the demand curve for such a product is so much straighter, enabling the enterprise to have the benefit of monopolistic competition. However, any sort of product differentiation is destined to be imitated by competitors, gradually eroding the competitive advantages of the original enterprise. Even if it is based on a most solid patent, material resources or R/D know-how, it will not be a large deterrent to competitors, because they will exercise further differentiation.

(3) Phillips and Dunkan's Concept of Product Differentiation<sup>4)</sup>

C. F. Phillips and D. J. Dunkan present the following concept on product differentiation.

Fixing the brand for a product of a specific enterprise, the advertising activity for it and providing the service which accompanies the sales of the product, such as installation and credit service by the maker, and delivery by the retailers are all included in product differentiation.

Accordingly, retail stores which strive to increase sales through attractive window displays and salespersons' cordial manners with customers are obviously part of

product differentiation.

So are manufacturers which not only get customers to accept their products through brand advertisement, but also motivate them to prefer or adhere to the brands of their products.

Such retailers and manufacturers are getting customers to buy their products spontaneously even if their prices are equal to or higher than those of the competitors.

### **3 Characteristics of Product Differentiation Strategy**

Observation of the actual industrial world on the basis of the above concepts reveals the following characteristics of product differentiation strategy.

#### (1) The Typical Case of Non-price Competition

This is the policy to distance the competitors in demand by contriving to fit the needs and lifestyles of customers in areas other than price of the properties of the product. Small manufacturers finding it relatively difficult to make low price as a means to compete due to size and scale should adopt this strategy as the primary means to compete.

#### (2) The Three Different Properties are the Objects of Differentiation

The three strata of product properties presented in the afore-mentioned concept of product (refer to figure 4-1), i.e. all the properties belonging to the three categories (core, substantial and augmented), are the objects of product differentiation strategy.

#### (3) Differentiations within Substantial and Augmented Properties are Essential in a Mature Society

In mature societies of advanced industrialized countries with high economic growth, production techniques are so highly developed that it is difficult to differentiate the intrinsic function (core property), thus necessitating the frequent use of differentiation in the substantial or augmented properties. This holds truer of small manufacturers having relatively limited capacity for technical development in the field of basic research, therefore having difficulty making differentiation in the core property.

#### (4) Gaining A Type of Monopolistic Profit

This is obtained through a competitive advantage which enables a product to set a monopolistically high price as well as grow market share, thereby making it possible

to gain a type of monopolistic profit. Moreover, good sales enable mass production, lowering the unit cost (production cost per product), thus further increasing gross profit.

Therefore, small manufacturers which, by necessity, must make profits in local or niche markets, should devote themselves to this product differentiation strategy.

#### (5) Creation of Brand Equity

If the product differentiation strategy which arouses the empathy of customers within the target market is continuously executed jointly with the promotion strategy, the brand equity in the target market will be established in due course, further enhancing the market competitive advantage.

It is possible for small manufacturers to establish brand equity in local or niche markets. However, since they have relatively limited promotional funds, they should apply themselves to a product differentiation strategy based on thorough customer orientation, aiming for a promotional effect through customers' word of mouth communication.

#### (6) Competitive Advantage is Fluid

Once an enterprise has succeeded in product differentiation, it can gain various benefits as mentioned above. However, since it is a matter of life and death for competitors, they will plan and execute their best possible countermeasures, aiming to secure advantageous positions versus competition.

Therefore, enterprises having success in product differentiation should try to protect and maintain advantages by patents, brand registration, etc. However, the rival enterprises may again resort to counterplots beyond patents and brands such as planning the product based on completely different ideas than before.

Accordingly, since competitive advantages are considerably fluid or temporary, successful enterprises in product differentiation should never rest but always strive to find a new market trend and continue to differentiate their product. Even increasing customer satisfaction helps increase sales. For small manufacturers with relatively weak competitive advantages, this point, in particular, should be emphasized.

#### (7) Under Structural Recession, A Low Pricing Strategy is also Necessary

Under the structural recession like present Japan, which is caused by a slump in

exports due to a higher value in the yen and the collapse of the bubble economy despite the maturity of society, customers will seek benefits contained in the product properties and also pursue low prices. As such, even small manufacturers are often required to create a product differentiation strategy coupled with as low a pricing policy as possible.

#### **4 Cases of Product Differentiation Strategy**

##### ◆ Nihon-Almit (production of high performance solder, Tokyo)<sup>5)</sup>

Usually solder contains chlorine to increase joining power. However, if the remaining chlorine reacts with moisture in the air, it becomes hydrochloric acid, spoils the joined electronic circuit and creates a problem for the instrument. As a matter of fact, a delay in the launch of the U. S. space shuttle was caused by this electronic circuit problem.

Nihon-Almit developed a solder with no chlorine but high joining power. This corporation had already met the MIL Standard of the U.S.Department of Defense, and in 1982, NASA, troubled with inferior solder, made a comparison between products from eight corporations meeting the MIL Standard. As a result, they adopted KR-19, Nihon- Almit's product. This is a product differentiation strategy based on "quality and performance."

##### ◆ Kanematsu-Engineering (manufacturer of powerful suction car (a truck to sweep sites after finishing construction), Kochi City, Kochi Prefecture)<sup>6)</sup>

This company created the slogan "We'll repair it quick so you can reuse your truck within a half day after your call." It was very meaningful to users. Even with a call at midnight, an engineer will be dispatched at dawn. For quick repairs, the manufacturer has its branches and business offices at seven spots across the nation where technicians in charge are stationed, and an organized network of 21 repair shops throughout Japan where technical guidance is given for the repair of its products. This is an excellent case of product differentiation strategy based on "after service."

Incidentally, the product differentiation strategies of the above small manufacturers bore fruit, leading to firm establishment of brand equities for the brands and company

names. The above two corporations are only a few examples. There are many more small manufacturers who have succeeded in the creation of brand equities by product differentiation strategies.

## Section 2 Market Segmentation Strategy

### 1 Concept of Market Segmentation Strategy

Market segmentation strategy segments the whole market into smaller markets following a given standard, sets up the segmented partial markets as target markets, and minutely plans and executes the 5P's, i.e. product planning (main policy), price policy, promotion, channel policy and physical distribution to adapt them to the requirements of the particular market segment.

For instance, as shown in the previous table, it is often a policy to segment the market by gender and age, pick out the most promising market segment given the realities of the enterprise (in the case of this example, women in their twenties), and construct the marketing 5P's specific to the audience.

What is used as a standard for segmentation is the condition required to succeed in market segmentation strategy. At present there are the following four types of conditions<sup>7)</sup>.

- ① Geographical Standard (each area, city, etc.)
- ② Demographical Standard (gender, age, income, educational level, occupation, etc.)
- ③ Social Psychological Standard (social stratum, life style, etc.)
- ④ Behavioral Scientific Standard (purchasing opportunity, purchasing motive,

age	10	20	30	40	50	60 and upward
men						
women						

Note : The square signifies market scale



pursued advantage, etc.)

In industry, these standards are used in combination with one another according to the specific qualities of the product and each enterprise, and the requirements of the market.

## **2 Patterns of Market Segmentation Strategy**

Market segmentation strategy can be divided into specific patterns, depending on which of the segmented partial markets is established as the target market.

Kotler introduced the following case of painkillers presented by D. F. Abell<sup>8)</sup>.

The market for painkillers is segmented into the following three strata by the standard of “desire.”

W1: the stratum who seek an immediate effect

W2: the stratum who seek an enduring effect

W3: the stratum who seek a tender effect

On the other hand, it can be segmented into the following three groups by the standard of “age.”

G1: Young People

G2: Middle-aged People

G3: Elderly people

The multiplication of the above two types of standards creates nine partial markets,  $3 \times 3$ . As shown in Figure 2, there are five methods of choosing the target market out of the above partial markets. Their characteristics are explained as follows:

### (1) Single Segment Concentration Type (① in Figure 2)

This is policy of picking out a single market segment as the target out of all the segmented partial markets and developing the marketing activity only for it. In the case of the above medication, its target is only middleaged customers among the strata who seek an enduring effect.

### (2) Specific Preference Concentration Type (② in Figure 2)

This is the pattern which makes only the stratum with specific preference the target among all partial markets.

In the relevant example, only the stratum seeking the medication with enduring

effect regardless of age is the target.

(3) Specific Customer Concentration Type (③ in Figure 2)

This is the method of picking out the specific customers' group as the target from all partial markets, and supplying them all the items having their specific requirements.

In the example, all three actions of painkillers (immediate, enduring and tender effects) are supplied to all middle-aged customers.

(4) Plural Segment Concentration Type (④ in Figure 2)

This is the method of choosing several partial markets as targets, with nothing in common and developing marketing activity specifically for them.

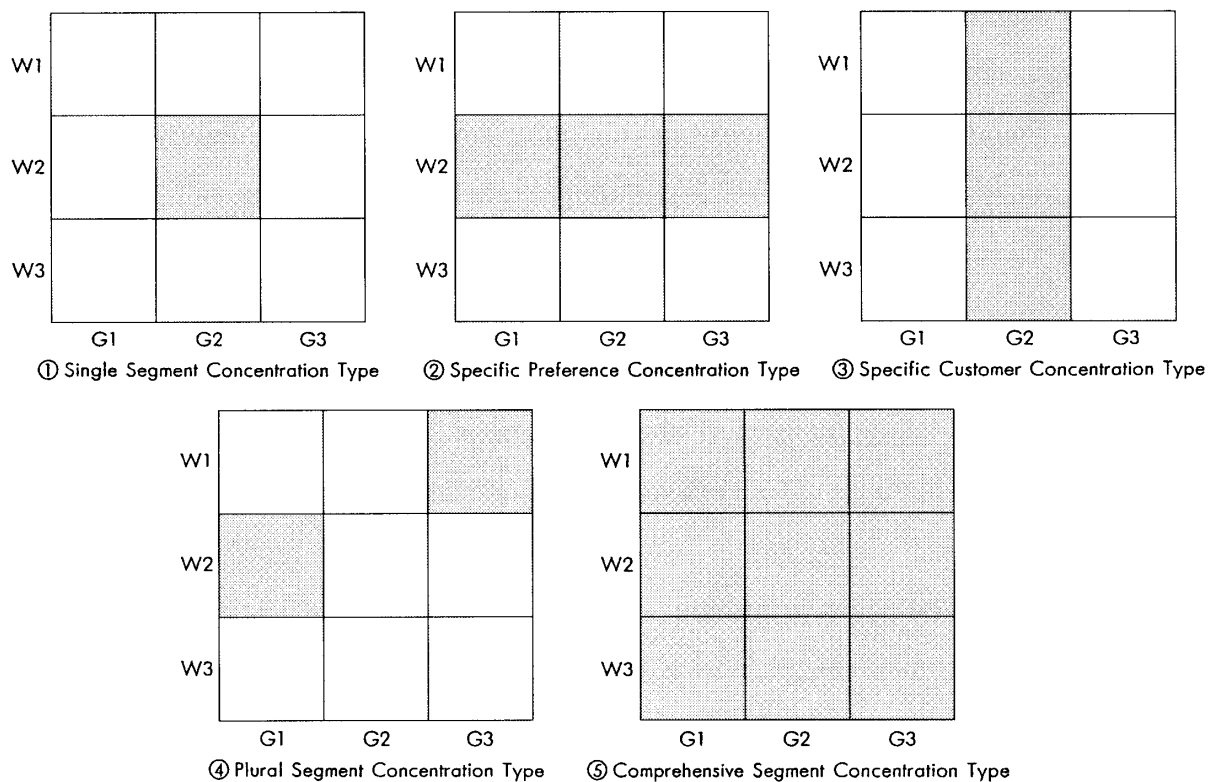
In the examples, the two groups, i.e. young people who seek a painkiller with an enduring effect and elderly who seek one with an immediate effect, are the targets.

(5) Comprehensive Segment Concentration Type (⑤ in Figure 2)

This is the policy of making all segmented markets targets. As it aims to develop for each segment minute marketing activities which will suit the requirements of each segment, it will be difficult for an enterprise to carry this out unless it is blessed with ample managerial resources.

An examination of the previous five types of market segmentation strategies presented by Abel indicates that ② specific preference concentration types make its target those who have needs for specific preference (in case of the painkiller, those who seek an enduring effect). This should be regarded as a type of single partial market concentration. Likewise ③ specific customer concentration type is substantially a type of single segment concentration. In case three-dimensional standards for segmentation are used, i.e. age, use (for doctors or consumers) and effect, the same thing can be said (refer to Figure 3).

It would be natural to understand single segment concentration strategy to mean setting up a single segment as the target and developing marketing in an intensive manner for that specific market, regardless of the standards for segmentation. If so, it would be more meaningful to classify both ② specific preference concentration type and ③ specific customer concentration type as examples of single segment concentration strategy, as presented by Abel.



Source : Abell (1980) chap. 8 pp. 191~214. partly modified by the author

Figure 2 Five Methods for Deciding Partial Target Markets

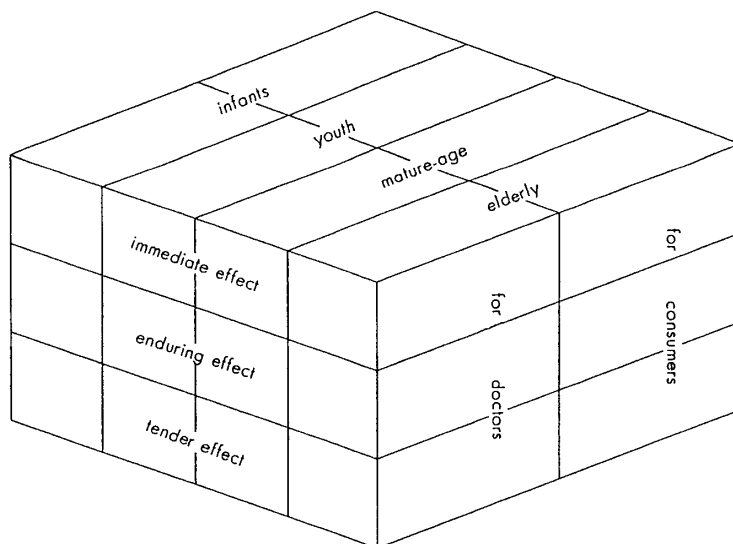


Figure 3 Three Dimensional Market Segmentation

Accordingly, market segmentation strategies are classified into ① single segment concentration strategy, ② plural segment concentration strategy and ③ comprehensive segment concentration strategy in this book. Meanwhile, if ① single segment concentration strategy is analyzed, it will ultimately be considered to be an individual customer accommodation type, namely, the marketing strategy is tailor made for the individual customer. The “Taylor made type,” above all, fits products with high unit price and customer-based varying optimalities, for instance, industrial goods such as main or accessory equipment, and shopping goods like high-fashion apparel and high-grade suits. This type of market segmentation strategy should be called “Taylor made type strategy.”

Anyway, it will be appropriate for small manufacturers to first tackle ① single segment concentration strategy, and as their business capacities increase, they should change to ④ plural segment concentration strategy.

### **3 Characteristics of Market Segmentation Strategy**

The above market segmentation strategy has the following strategic characteristics.

#### **(1) Concentration of Marketing Efforts on Limited Market**

This is a priority intensive type of marketing strategy which expands market share of a specific segmented market by concentrating the marketing efforts focused on product planning to the segmented market. In the case of a huge corporation, it is possible to concentrate marketing efforts on each partial market by following the comprehensive partial market concentration type of market segmentation strategy, but since small manufacturers have relatively scarce managerial resources, it is desirable for them to focus on the single segment concentration type, marking local and niche markets their targets.

#### **(2) The Policy Suitable for the Mature Country**

In the economically underdeveloped or developing countries, there is often a big demand even for ready-made goods due to the scarcity of goods. Under such a market environment, if the product meets the “core benefit” in the above-mentioned concept of the product, it may be considered to be marketable.

However, if the needs, life style and sense of value are diversified and individualized with the development of the economy and maturation of society, such products will lose much of their competitive advantage. Under such market environmental conditions, the market segmentation strategy used to cope minutely with the diversification and individualization of customer needs will be appropriate.

### (3) Collision of Product Item Diversification with Cost Reduction

In case market segmentation strategy is pursued, since the product item diversification will inevitably be advanced in an effort to cope closely with individual customer needs, increasing the unit cost of the production occasionally at a loss, it is necessary to balance the number of items with the costs.

Policies for that purpose include ① having a moderate number of items, ② adding to the prototype varied options to meet the desires of customers and ③ making the parts common through standardization. It will be essential for small manufacturers to, first, devote themselves to the single partial market concentration type, then, only after solidifying their foothold in that specific partial market, advance into the next single partial market in an unadventurous manner, maintaining a moderate number of items and using the policies ② and ③ jointly.

Also, in case the “Taylor made type strategy” is taken, it is necessary to adopt a high price policy to absorb the rise of unit costs, and this should be undertaken in organic combination with the product differentiation strategy discussed in the last section.

### (4) Applicable at the Introduction Stage and Maturity Stages of the Product Life Cycle

Market segmentation strategy should naturally be planned and carried out during the market-introduction period of the life cycle of the new product. However, there are cases in which the market environment has already changed by the time the product, which had become popular, entered the maturity stage after a lapse of time. In this case, the market segmentation strategy taken at product introduction has already ceased to fit the realities of the market, and the competitive advantage of the product has been weakened.

In order to avoid this situation, it is necessary to implement a market segmentation

strategy based on a contemporary segmentation standard to newly fit actual conditions of the market in a better way. Thus, market segmentation strategy should be followed during the period of maturity.

#### (5) Effective Means of Competition for Small Manufacturers and New-Comers

Though it is not easy for small manufacturers and newcomers to compete directly with huge or long-established businesses, it will be possible for them to secure a large market share in the specific partial market where little penetration has been made by huge or long-established businesses, if they make such partial markets their targets and concentrate marketing to match the needs of the partial market.

It is ultimately possible for them to exceed the shares of the huge or long-established businesses in that market, and there are many cases of such success.

### 4 Cases of Market Segmentation Strategy

◆ Oho-Seisakusho (manufacturer of refrigerated showcases, Kitakyushu City, Fukuoka Prefecture)<sup>9)</sup>

The refrigerated showcase (the company developed an epoch-making one to fit the cooling compressor, as the first such case in Japan) placed near the counter at sushi shops, grilled-chicken shops, confectioneries, coffee shops, etc. Must be made of clean material and have a look of weightiness because not only the sizes and angles of the glass must conform with the holistic design of each store, but they are placed before the eyes of customers and displayed with food inside.

Thus, the company maintained the “Taylor made type strategy,” turning out over 90% of its products by an order made production philosophy requiring little stock. Though a large-scale kitchen apparatus maker introduced a competitive product at a low price through large volume production, it had difficulty meeting the minute desires of each individual store, resulting in their sales being dwarfed by Oho Seisakusho. The latter, despite its prices exceeding those of big makers, has advantages such as fine appearance, properly fitting sizes and angles, and improving after-service, enough to make up for the price handicap.

◆ Chou-Jutaku (Housing design, construction and management, Koshigaya City, Saitama Prefecture)<sup>10)</sup>

As this company had the bitter experience of expanding the business too much to deal with customers sufficiently, resulting in a rush of complaints, it has shifted its business policy to “limited area business.” The present “limited area” is the area within a hour’s drive of the head office in the Koshigaya City area and of the branches and business offices in the Kasugabe and Kusaka areas along the Tobuisezaki Railway Line in the east of the prefecture. As a result of this shift, it became possible for the firm to offer “before and after service” in a minute to customers along the railway line, attaining a share of over 30%.

The strategy conducted by this company is “plural segment market concentration” strategy with geographic areas as the segment standard.

### **Section 3 New Product Strategy**

#### **1 Outline of New Product Strategy**

The new product in this book includes not only the product with a completely new core benefit that has never before existed in the world, but also the product with a superior competitive advantage in terms of customer satisfaction in the spheres of “substantial” and “augmented” properties concerning the fields of “marketability” and “social aspect” (refer to figure 1). The new product strategy is a strategic policy to develop and introduce into the market a new product of the above concept.

Every product has a life cycle (market life) and is destined to disappear from the market some day, or at least, when the product enters the maturity stage in the product life cycle, it is often involved in price competition, which deteriorates company profits. Accordingly, an enterprise must always strive to positively handle the product in the stages of introduction, growth or competition of its life cycle in order to survive and further develop. It’s just like continuously adding wood to a bonfire to keep it burning.

However, in the case that a newly developed product has brought a success in the market, the enterprise will have an enormous advantage that enables its prosperity

through the acquisition of monopolistic profit.

On the other hand, since a new product strategy for manufacturers, unlike that for distributors, requires vast managerial resources in R & D, technical know how, equipment investment, development cost and time, should they fail to introduce a new product, they would suffer huge losses, putting themselves in jeopardy.

Therefore, when a manufacturer carries out new product development, it must do so, not only boldly and carefully, but surely and rapidly, regarding it as a marketing strategy from a long-term, comprehensive viewpoint.

## 2 Procedure of New Product Strategy

The new product strategy should be planned and executed by the procedure shown in Figure 4. Let me explain its contents as follows:

### (1) Collection of Ideas

The first step for the new product strategy starts with the collection of ideas about the new product. Following are six sources of such ideas at present.

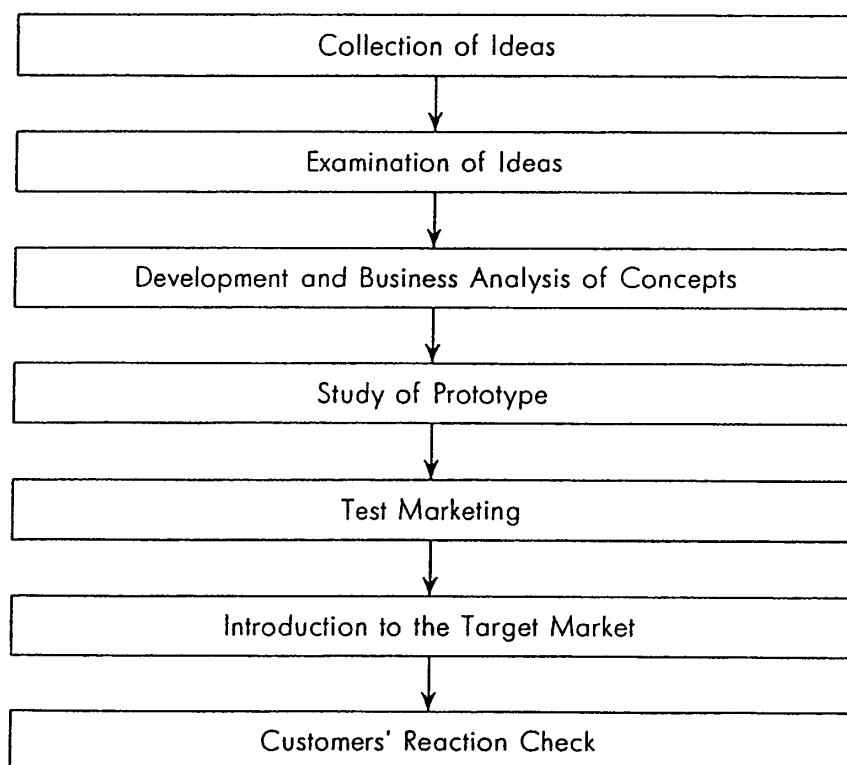


Figure 4 Procedure of New Product Strategy



## 1) Inside the enterprise

- ① Staff in charge of sales or trade who have direct contact with customers (very often applicable to small manufacturers of industrial goods)
- ② Top management and marketing staff (rich in ideas because of abundant available information on customers and competitors)
- ③ The R & D Department, Technology Dept., etc. (often applicable to small manufacturers)
- ④ Suggestions by average employees (a suggestion system is used at times)
- ⑤ Customers' complaints and desires through distributors (often collected by sales persons)
- ⑥ Brain storming (spontaneous suggestions of ideas on new products by a gathering of six to seven people from each required department headed by a chairperson of neutral position. Ideas bring about other ideas, giving rise to excellent ideas at times)

## 2) Marketing channels

Ideas can be obtained through the collection and analysis of the real voices of wholesalers and retailers dealing with the company. Dealers are often familiar with the trends of end-customers and not only know the needs and wants of the market and ideas about the product, but also information on suggested improvements of the product. Many small manufacturers make use of them.

## 3) Merchandise of competitors and related enterprises

- ① The characteristics of competitive and substitute goods and customers' reaction to them
- ② Goods on display at different exhibitions and fairs
- ③ Goods shown in catalogues of domestic or foreign order sales and foreign goods

## 4) Technical journals and trade papers and magazines

- ① Tracing of marketing strategies of individual enterprises focused on merchandise in technical journals and trade papers and magazines over the last five years
- ② Survey of the trends of specific market segments or specific trades by collecting one year of relevant magazines, cutting out articles according to specific themes and grouping them by categories.

## 5) Government publications

- ① Data of results of various surveys conducted by the national, prefectural and municipal governments and their outer organizations
- ② Records concerning patents and design registrations

## 6) Others

- ① Managerial consultant and lawyer
- ② Research organs like universities and think tanks
- ③ Market survey organs and advertising agencies
- ④ Traders' unions and associations
- ⑤ Chambers of commerce and industry
- ⑥ Interchanges among different industries
- ⑦ Inventors (individuals and inventors' groups)

Meanwhile, since confidential information often contains precious information, it is necessary to take into consideration the following points during the information-gathering activity<sup>11)</sup>; ① paying attention to direct information from people, ② attaching importance to exchanges of information by human contacts, ③ listening to information on different industries, ④ taking heed of employee's small talk and information provided

## (2) Examination of Ideas

When a considerable number of ideas are collected, they are sorted out by the group in charge of the new product project (committee, project team, etc.), and usually strictly examined using the following checklist:

- ① Usefulness (What benefits can be given to consumers and users?)
- ② Marketability (Can sufficient demand be expected?)
- ③ Profitability (relationship between expected sales and cost)
- ④ Possibility of gaining a patent (priority given to products with this possibility)
- ⑤ Competitive relationship (Is this a monopolistic industry or not? Is there such a possibility in the future?)
- ⑥ Necessity of equipment investment (Is it possible to continue production through use of existing equipment? In case new equipment investment is required, how long is the payout period?)

- ⑦ Necessity of a new channel (Can the existing channel be used? In case a new channel is required, how much will it cost?)
- ⑧ Extended products or new products (priority should be given to extended products)

### (3) Development of Concept and Business Analysis

The product concept is developed based on ideas which have been successfully examined and adopted. The product concept is the clarification of the product's appealing points and characteristics, and its function is to identify differences versus competitors and clarify its properties to customers.

In other words, the concept means the clarification of the 5W's and 1H on the product (Who: target customer, What: the core benefit of the product, When: opportunities for its use or consumption, Where: place of its use or consumption, Why: the purpose of its use or consumption, How: way it is to be used or consumed). To put it more concretely, it is a description of the appealing points of the product which fit the needs of target customers in the core, substantial and "augmented" properties of the fields of "marketability" and "social aspect" in Figure 4-1, and can easily attract the attention of customers.

For a better understanding, let me introduce the concept of a car presented by P. Kotler, though it is a product of a large enterprise; "It is a car which is ideal (How) for a housewife (Who) to use for shopping (Why, When), load foods or pick up children in the neighborhood (Where), economical, rather small and easy to ride."<sup>12)</sup> In its development, it will be important to make decisions by comparing the positions of its concept with those of its competitors, through use of a graph.

Next, the potential profitability of the product whose concept has been fixed is analyzed. Its sales volume and profit are predicted through analysis using simulations of market scale, marketing capacity of competitive goods, required production and marketing costs, etc.

### (4) Study of the prototype

After a distinct concept of a product has been developed, noting through judgement that it can be potentially successful, it is produced on trial under supervision of the R & D Dept. with approval of top management. During that process a more concrete

study of its merchandising is made. In other words, the possible production volumes and cost reductions in production, and the solutions of the problems with production techniques are studied.

In this stage, and at the same time, a study of potential problems concerning the marketing strategies of the relevant product is done. A study of the brand name, price, package, promotion, channel, sales timing, etc. is conducted.

The key to successful new product development is the requirement that top management provide insight and leadership to the new product planning process and also be a positive influence while aggressively moving the process along. In case they lack these qualities, they will miss the business opportunity or suffer a chance loss, eventually affecting the survival and prosperity of their enterprise.

#### (5) Test Marketing

After the study of the prototype is completed, proper construction of marketing 5P's is made to fit the requirements of the target market, and the product is actually sold in a test market to check for reactions of customers and distributors. A test is done to determine whether the new product prototype constructed by the R/D Dept. and the Technology Dept., i.e. the brains of the enterprise, has succeeded in matching the needs of the actual market or not.

In the case of production generated through an order, it is enough to have the prototype examined by the client, but in the case of prospective production, the case is different. Unless the prototype is introduced into the market after being evaluated by a small number of customers, or undergoes an adjustment regarding marketing 5P's, it will be at risk.

The scale of a test market is decided by the scale of the enterprise, the investment cost and the degree of risk accompanying the product's market introduction. Large-scale makers of consumer goods often use either Sapporo, Sendai, Nagoya, Hiroshima or Fukuoka as a sample market. Small manufacturers, with relatively limited managerial resources, often use a monitor system or a limited-period sales system at a specific shop.

#### (6) Market Introduction

After the above steps are taken, the final decision whether to introduce the product

into the target market is made after approval of top management. In the case of an affirmative decision, the execution plan concerning marketing strategy and tactics for the introduction, including an action plan, is constructed, then woven into a time plan and executed according to it.

It must not be forgotten that after market introduction, a check of customers' reactions and feedback regarding the marketing 5P's must be done.

#### (7) Check of Customers' Reaction

What must be done now is to check the reaction of customers who actually use or consume the product after its introduction into the market. It is essential to collect and analyze their real thoughts, directly or through the end channel, and also adjust the contents of each of the marketing 5P's focused on the product property, to meet the needs of customers more adequately. If this work is omitted, there is a greater possibility for many competitors to enter the market.

### **3 Cases of New Product Strategy**

◆ Tokutake-Sangyo (maker of travel slippers and cara shoes, Okawamachi, Okawa County, Kagawa Prefecture)<sup>13)</sup>

The "Ayumi" care shoes for the aged or physically-handicapped, the major product of the company, were developed by its president after he heard from his friend, the owner of an old people's home, "There are no shoes for the aged who have trouble walking. Unless this situation is improved, they will become unable to walk at all." With this as motivation, he made use of the know-how of producing travel slippers, a long seller of the company, to develop light cloth shoes with the face fastener on the instep, to facilitate wearing of the cara shoes.

This maker has developed one-on-one marketing by producing shoes with different sizes for the right and left foot, and adjustable lengths for the shoelaces. As for the marketing channel, it entrusted NTT Telemarketing to conduct telephone sales. Also it adopted old peoples' homes and drug stores, places of or near the aged, to motivate them to purchase care shoes there. As of February, 2001, 1500 such stores were located across Japan, and it grew into an enterprise with annual sales for care shoes at 400 million yen, 70% of its total sales in five years after entry into the new

field.

◆ Tokunaga-Koinobori (maker of carp streamers, Wake-machi, Wake County, Okayama Prefecture.)<sup>14)</sup>

Its president and directors pay a visit twice a year to 300 specialty stores and department stores out of the 400 stores dealing with its products. They gather consumer information from the stores with daily direct contact with customers. Out of this came the following information, even during a recession, “Most of those who buy carp streamers are the aged with new-born grandsons and expensive ones made of silk or placed in a box of paulownia would sell far better than the ordinary ones.”

Based on this information, this company launched the new product “Kyonishiki” with remarkable difference in aesthetics from its competitors. This product is selling extremely well despite its price of 300 thousand yen, three times higher than about 100 thousand yen for its competitors, for the six-piece set with a standard height of six meters.

◆ Hightech (maker of automatic sausage filler, Yokohama City, Kanagawa Prefecture)<sup>15)</sup>

This corporation, the developer and manufacturer of food machines, undertook in 1997 the development of an automatic even-size natural sausage filler using natural pig intestines. At that time artificial sausage filling was the primary method, and the industry believed that even-shaped natural sausage could not be produced with natural intestines. However, reversing this common sense, the manufacturer succeeded in its development in 1999. This machine was awarded the “Small Business New Machine Development Prize” by the Machine Promotion Association and the company received a total of eight patents in Japan, the U.S. and other nations.

## Conclusion

Product strategy is one of the sub-strategies of marketing strategy, since it is one of the marketing 5P's. Moreover, as product planning is the most essential factor of the five, the product strategy is the most essential sub-strategy of marketing strategy. This is applicable for all manufacturers despite the company size.

However, when a small manufacturer develops a product strategy, it is important to carry out a market segmentation strategy. And it should choose, as the target market, a niche market or a specific partial market in the total market. A niche market is a market that large manufacturers are unwilling to enter because the market size is too small or it requires them some manual labor, and so on.

Then, it should scrutinize the characteristics of the target niche market and prepare the product much better fit them than the competitors' in one or a few elements in terms of substantial property and augmented property, with other factors of marketing 5P's harmoniously organized. When this is done, the product is utterly differentiated from the competitors' from a point of view of the customers in the target market.

In addition, when it develops new products, it is essential to collect information for the new products directly from the target market or from distributors located nearest the target market and to try to answer positively any request for new products made by customers unless it is by far beyond its capacity.

In order to make all these possible, it goes without saying that the company is well equipped with necessary technology and research & development ability. Generally speaking, small manufacturers are comparatively in short of these elements of managerial resources, it is crucially important for them to fortify those at any cost.

### Notes

- 1) This is what Kotler's product concept in P. Kotler, *Principles of Marketing*, Prentice-Hall International, 1998, p.287 and Deushi's product concept in M.Deushi, "Product Strategy," K. Tanouchi & S.Murata ed, *Fundamental Theory of Today's Marketing*, Dobunkan, 1981, p.200, are put together and modified by the author.
- 2) R.Bus Kirk, *Principles of Marketing: The Merchant View*, Holt, Rinehart and Winston, Inc., 1965, pp.231-232.
- 3) K.R.Davis, *Marketing Management, 2<sup>nd</sup> edition*, The Ronald Press Company, 1965, p.429.
- 4) C.F. Phillips & D.J. Dunkan, *Marketing : Principles and Methods*, Richard D. Irwin Inc., 1968, pp.781-782.
- 5) *Nikkei Business* [Jan.8, 2001] pp.72-74.
- 6) *Nikkei Business* [April 24, 2000] pp.58-59.
- 7) P. Kotler, *Principles of marketing*, Prentice-Hall International, 1998, p.39, partly modified by the author.

- 8) D.F. Abell, *Defining the Business : The Starting Point of Strategic Planning*, Englewood Cliffs, NJ: Prentice-Hall, 1980, pp.191-214.
- 9) *Nikkei Business*, [Oct.9, 2000] pp.72-73.
- 10) *Nikkei Business* [June 17, 1996] pp.50-51. This Company is in construction, not necessarily manufacturing. Moreover, as its capital is 360 million yen and work force 390 employees, it slightly exceeds the criteria for small businesses. However, since it is in business similar to manufacturing and it represents a good example of the use of market segmentation, the author dared to use it as a case in this paper to facilitate the readers' understanding of market segmentation strategy.
- 11) S.Yonezawa, *Maturity Revolution of Small Businesses*, Dobunkan, 1985, p.21.
- 12) P.Kotler, *Marketing Essentials*, Prentice-Hall Inc., 1984, translated by N. Miyazawa, A. Sogo and Y. Urago, Tokaidagaku-Shuppankai, 1986, p.268, partly modified by the author.
- 13) *Nikkei Business*, [Feb. 5, 2001] pp.62-63.
- 14) *Nikkei Business*, [April 27, 1998] pp.61-62.
- 15) *Nikkei Business*, [June 4, 2001] pp.58-59.