

Entrepreneurial Management

Chapter 7

The Marketing

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*After studying this chapter,
you should be able to...*



1. Describe small business marketing.
2. Identify the components of a formal marketing plan.
3. Discuss the nature of the marketing research process.
4. Define *market segmentation*, and discuss its related strategies.
5. Explain the different methods of forecasting sales.

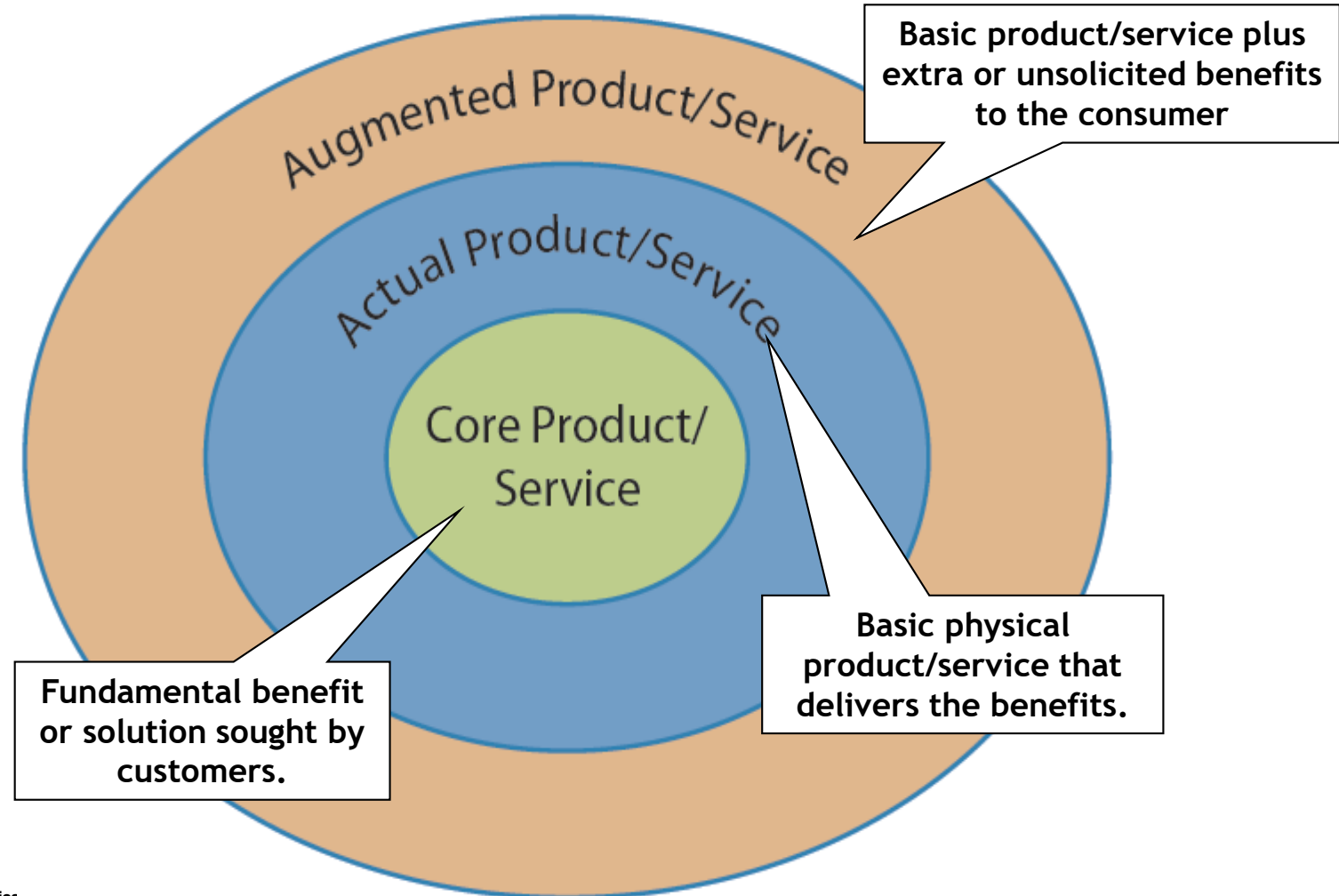
What is Small Business Marketing?

- **Small Business Marketing**
 - Business activities that direct the creation, development, and delivery of a bundle of satisfaction from the creator to the targeted user.

What is Small Business Marketing?

- **Small Business Marketing Activities**
 - Identification of the target market
 - Determining target market's potential
 - Preparing, communicating, and delivering a bundle of satisfaction to the target market

Three Levels of a Product and/or Service



Marketing Philosophies Make a Difference

- **Production-Oriented**
 - Emphasizes development of the product and production efficiencies over other activities.
- **Sales-Oriented**
 - Favors product sales over production efficiencies and customer preferences.

Marketing Philosophies Make a Difference

- **Consumer Oriented—The Right Choice**
 - All marketing efforts begin and end with customers.
 - The focus is on consumers' needs, which is most consistent with long-term success of the firm.

Consumer Orientation—The Right Choice

- Reasons for Not Adopting a Consumer Orientation
 - State of competition
 - ❖ With no competition or high demand, firms focus on production.
 - Production focus
 - ❖ Entrepreneurs may have strong production skills and weak marketing skills.
 - Focus on the present
 - ❖ Entrepreneurs tend to focus on current success which is the result of an overemphasis on selling.



Marketing Research Activities

- **Market Analysis**
 - An evaluation process that encompasses market segmentation, marketing research, and sales forecasting
- **Developing the Marketing Mix**
 - The combination of product, pricing, promotion, and distribution activities.

The Formal Marketing Plan

- Market Analysis

- Customer profile

- ❖ A description of potential customers in a target market

- Sales forecasts

- ❖ “Most likely,” “pessimistic,” and “optimistic”

- The Competition

- Profile of key management personnel

- Overall strengths and weaknesses (SWOT)

- Related products being marketed or tested

- Likelihood of competitors’ entry into target market

The Formal Marketing Plan (cont'd)

- Marketing Strategy

- Product and/or service section

- ❖ Decisions affecting the total product

- Distribution section

- ❖ Decisions regarding product delivery to customers

- Pricing section

- ❖ Setting an acceptable value on the product

- Promotional section

- ❖ Communicating information to the target market

The Nature of Marketing Research

- Marketing Research
 - The gathering, processing, reporting, and interpreting of market information
- Outside Sources
 - Hiring professional marketing researchers
 - Using the Internet for web-based surveys and online focus groups

The Nature of Marketing Research

- Steps In the Marketing Research Process
 1. Identifying the informational need
 - ❖ Why do we need to know this?
 2. Searching for secondary data
 - ❖ Who has researched this topic already?
 3. Collecting primary data
 - ❖ Who do we ask and what do we ask them?
 4. Interpreting the data
 - ❖ Got the information, now what does it mean?

Methods for Collecting Primary Data

- Observational Methods

- Human
- Mechanical

- Questioning Methods

- Surveys
 - ❖ Mail
 - ❖ Telephone
- Personal interviews
- Experiments

Designing and Testing a Questionnaire

- Ask questions that relate to the issue.
- Use open-ended and multiple-choice questions.
- Carefully consider the order of the questions to avoid producing biased answers to later questions.



Designing and Testing a Questionnaire

- Ask sensitive questions near the end of the questionnaire.
- Word questions as simply, clearly, and objectively as possible.
- Pre-test the questionnaire on a small representative sample of respondents.



Interpreting the Data Gathered

- Transforming Data into Information
 - Tables and charts
 - Descriptive statistics
- When Research is Too Expensive
 - Newspaper, magazine, and industry trade journal articles and trade research
 - Internet searches
 - Check out the competition
 - Use students to stretch research budget
 - Trust your hands-on feel for the market

When Not To Conduct Formal Research

- Your firm doesn't have the resources to conduct research properly or to implement findings generated from the proposed research.
- The opportunity for a new business or product introduction has passed. If you've been beaten to the punch, it may be wise to wait and see how the early entrant to the market fares.
- A decision to move forward has already been made. There's no need to spend money on a decision that has already been made.

When Not To Conduct Formal Research

- You can't decide what information is needed. If you don't know where you are going, any road will take you there.
- The needed information already exists (that is, secondary information is available).
- The cost of conducting research outweighs the potential benefits.

Understanding Potential Target Markets

- **Market Ingredients**
 - A group of (1) customers or potential customers who have (2) purchasing power and (3) unsatisfied needs
- **Market Segmentation**
 - The division of a market into several smaller customer groups with similar needs
- **Focus Strategy**
 - A type of competitive strategy in which cost and differentiation-based advantages are achieved within narrow market segments.

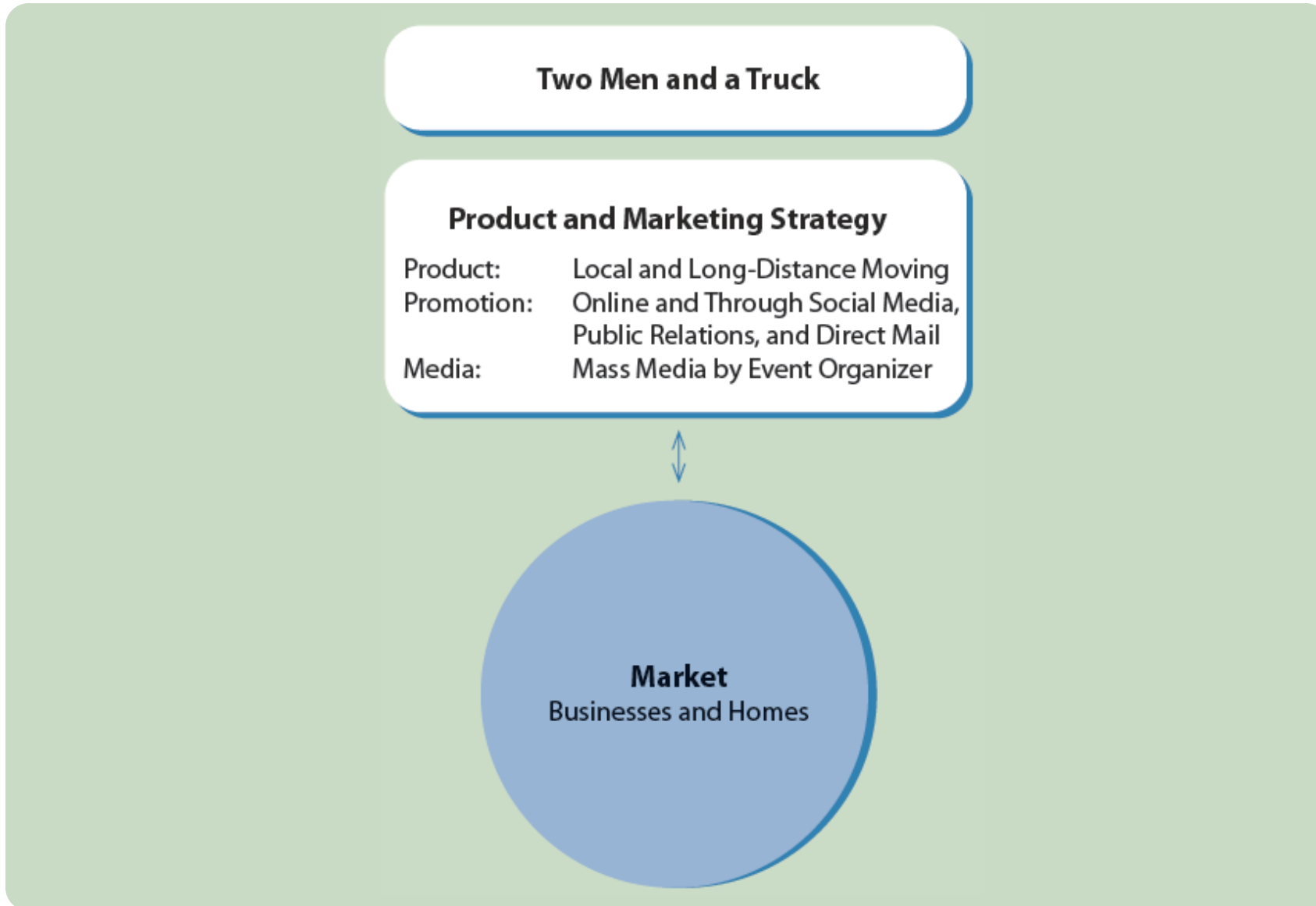
Market Segmentation and Its Variables

- **Segmentation Variables**
 - The parameters used to distinguish one form of market behavior from another for the purpose of market segmentation
- **Benefit Variables**
 - Specific characteristics that distinguish market segments according to the benefit sought
- **Demographic Variables**
 - Specific characteristics that describe customers and their purchasing power

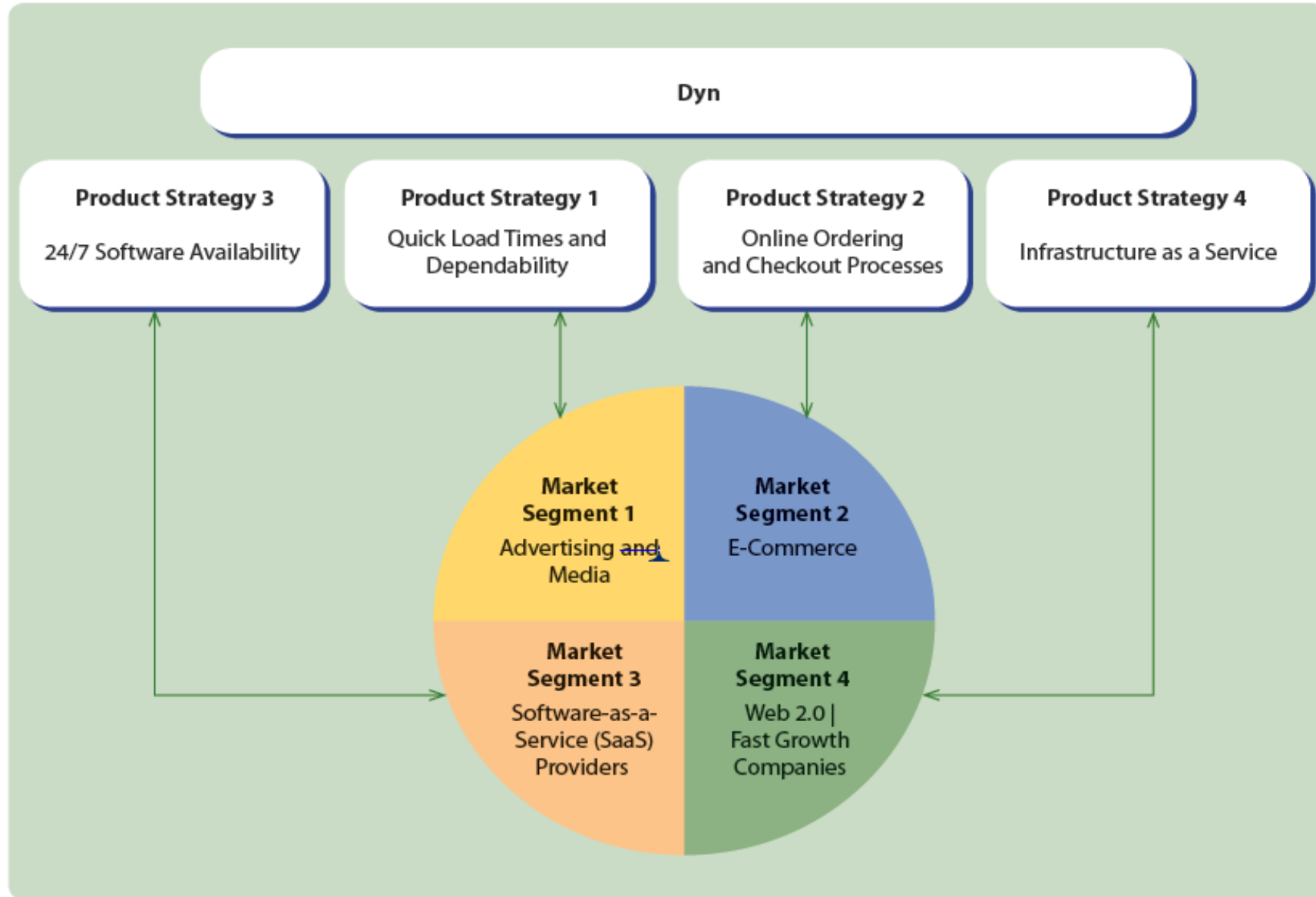
Types of Market Segmentation Strategies

- **Unsegmented Strategy (Mass Marketing)**
 - A strategy that defines the total market as the target market.
- **Multisegment Strategy**
 - A strategy that recognizes different preferences of individual market segments and develops a unique marketing mix for each.
- **Single-Segment Strategy**
 - A strategy that recognizes the existence of several distinct segments but focuses on only the most profitable segment.

7.2 An Unsegmented Market Strategy



7.3 A Multi-Segment Market Strategy



A Single-Segment Market Strategy



Estimating Market Potential

- The Sales Forecast

- A prediction of how much of a product or service can be sold within a market in a defined period of time.
 - ❖ Assesses the new venture's feasibility.
 - ❖ Assists in planning for product scheduling, setting inventory levels, and personnel decisions

- Limitations of Forecasting (for Entrepreneurs)

- Unique new business circumstances
- Lack of familiarity with quantitative methods
- Lack of familiarity with the forecasting process

The Forecasting Process: Two Dimensions of Forecasting

- **The Starting Point**

- **Breakdown process (chain-ratio method)**

- ❖ Forecasting begins with a macro-level variable and works down to the sales forecast (top-down).

- **Buildup process**

- ❖ All potential buyers in various submarkets are identified and then the estimated demand is added up (bottom-up).



Sales Forecasting with the Breakdown Method

Linking Variables	Sources	Estimating Values	Market Potential*
1. State population	U.S. census of population		1,429,096
2. State population in target age category	<i>Sales & Marketing Management Survey of Buying Power</i>	12%	171,492
3. Target age enrolled in colleges and universities	State Department of Education	30%	51,448
4. Target age college students preferring convenience over price	Student survey in a marketing research class	50%	25,724
5. Convenience-oriented students likely to purchase felt-tip pen within next month	Personal telephone interview by entrepreneur	75%	19,293
6. People who say they are likely to purchase who actually buy	Article in Journal of Consumer Research	35%	6,753
7. Average number of pens bought per year	Personal experience of entrepreneur	4	27,012

*Figures in this column, for variables in rows 2-7, are derived by multiplying the percentage or number in the Estimating Value column by the amount on the previous line of the Market Potential column.

↑
SALES FORECAST FOR STATE

Forecasting and Predicting Variables

- **Direct Forecasting**
 - Use of sales as the predicting variable
- **Indirect Forecasting**
 - Use of related variables related to sales as proxies to project future sales

Key Terms

actual product/service

augmented product/service

benefit variables

breakdown process (chain-ratio method)

buildup process

core product/service

customer profile

demographic variables

direct forecasting

indirect forecasting

market

market analysis

marketing mix

marketing research

market segmentation

multi-segment strategy

primary data

sales forecast

secondary data

segmentation variables

single-segment strategy

small business marketing

unsegmented strategy (mass marketing)