Entrepreneurial Management
Chapter 7
The Marketing Plan
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ENTREPRENEURIAL MANAGEMENT – LECTURE 7

CHAPTER 7 – **The Marketing Plan**

LESSON 7

The Marketing Plan

The Family Business

<u>Learning Objective 7.1 – What is Small Business Marketing?</u>

Small business marketing consists of the commercial activities that direct the invention, development, and delivery of a satisfaction package from the creator to the intended user. This concept stresses the benefits a product or service will provide to its clients. It may be useful to consider a satisfaction bundle as having three levels: core product/service, actual product/service, and boosted product/service. Customers want the underlying advantage or solution represented by the primary product or service. The actual product or service is the tangible product or service that provides these benefits. The augmented product/service consists of the base product/service plus any additional or unexpected benefits to the consumer that may induce a purchase. In the case of shoes, for instance, the core product is basic foot protection; the product itself is the shoe. The enhanced product may provide increased running speed, enhanced comfort, or reduced foot and leg wear. Customer sentiment could potentially be affected by augmentation. Are the shoes fashionable, prestigious, and socially distinctive?

Marketing Philosophies Make a Difference

The marketing philosophy of a company determines how its marketing activities are developed in its marketing plan and utilized to meet its business objectives. The majority of small enterprises are guided by three distinct marketing philosophies: production-oriented, sales-oriented, and consumer-oriented. The first two concepts are utilized most frequently since they are related with the expertise and aptitudes of entrepreneurs who may have a manufacturing or technology-based background, or who may have had a sales job. A production-oriented attitude views the product as the most vital aspect of the enterprise. Promotion, distribution, and other marketing operations receive less attention from the company than the development of the product itself. This is the classic strategy of "building a better mousetrap." However, do clients comprehend what makes your mousetrap unique, or are they even aware of your product? A sales-oriented attitude, on the other side, places less emphasis on production efficiencies and consumer preferences in favor of "pushing merchandise." Achieving sales targets becomes the company's top objective. A corporation with a consumer-centric mindset, on the other hand, thinks that everything, including production and sales, revolves around the consumer and his or her requirements. All marketing activities begin and conclude with the consumer as a result. Obviously, we believe that a consumer-centric mentality leads to success in fields other than marketing.

A Consumer Orientation—The Right Choice

Consumer orientation is implemented by the application of a two-step marketing process: recognizing client needs and meeting those needs. Given the competitive character of most marketplaces, this simple formula is simple to understand yet challenging to implement. But this is what is required for a company's long-term success. We strongly advise all new firms to begin with a customer focus. Customer happiness is not a means to an end; it is the end itself.

Learning Objective 7.2 – The Formal Marketing Plan

Market Analysis

A crucial element of the marketing plan specifies the target market for the business. A customer profile describes the demographic and psychological characteristics of the customers who are most likely to be qualified buyers of your products or services. This profile can be constructed using marketing research data acquired from secondary and primary sources.

The Competition

Existing competitors should be thoroughly investigated. The more you know about their top management members, the more accurately you can predict their activities. A brief evaluation of the overall strengths and weaknesses of competitors should be included in the competition section of the business plan. In addition, rivals currently sold or tested similar items should be included. Additionally, the entrepreneur must evaluate the chance that any of these companies will enter the target market.

Marketing Strategy

The marketing strategy component of the marketing plan is the most extensive and, in many ways, is subject to the most scrutiny from possible investors. The marketing plan outlines the marketing efforts that will make or break the vision of the business. It is one thing to realize that a product or service has a wide target market. It's another thing to be able to articulate why buyers will purchase your goods or service. The "4 Ps" marketing mix identifies the areas that a company's marketing strategy should address: (1) product decisions that will transform the basic product or service concept into a bundle of satisfaction, (2) place (distribution) activities that will determine the delivery of the product to customers, (3) pricing decisions that will set an acceptable exchange value on the total product or service, and (4) promotional activities that will communicate the required information to target markets.

The Product/Service Section

The product/service component of the marketing plan covers the product or service's name, the business's name, and the rationale for its selection. Describe any legal protection that has been obtained for the names. Additionally, it is essential to explain the reasoning behind the name decision. If employed for particular products or services, the family name of an entrepreneur can occasionally contribute positively to sales.

Place—The Distribution Section

Frequently, new businesses rely on established intermediaries for product distribution. This technique decreases the required launch investment and expedites the delivery of items to customers. In the distribution portion of the marketing plan, the means by which these intermediaries will be convinced to carry the new product must be described. Any plans the company may have to license its product or service should also be included in this section. Some retail businesses demand permanent sites, while others require mobile outlets. However, businesses may rely on others in the distribution chain to deliver and/or warehouse their merchandise. In this portion of the marketing plan, layouts and configurations of retail stores should be detailed. Such concerns like the following must be addressed: Will the customer receive the items by standard mail or expedited shipping? Will the service be provided from the entrepreneur's home or office, or will a licensed representative provide the service? How long will it be between placing an order and its actual delivery? When a new company's method of product delivery is exporting, the section on distribution must cover the applicable rules and regulations controlling that activity. This section's discussion must reflect an understanding of exchange rates between currencies and distribution possibilities.

The Pricing Section

A product or service's pricing must at least cover the cost of delivering it to consumers. The pricing component must therefore account for both production and marketing expenditures. Obviously, the forecasting methodologies utilized for this section's analysis should be consistent with those employed for the market analysis portion. Alternative pricing should contain break-even computations, which identify the points at which revenues and costs are equal. However, selecting a price solely based on a break-even analysis is not recommended because it disregards other key factors. If the entrepreneur has identified a truly unique market niche, he or she may be able to charge a premium price in the short term. There is no perfect method, but your purpose is to discover what buyers are prepared to pay for your product or service, and then work backwards to ensure that you can produce and sell it profitably.

The Promotion Section

The promotion portion of the marketing plan should include the entrepreneur's strategy for raising customer knowledge of the product or service and explain why consumers will be motivated to purchase. Personal selling (that is, person-to-person selling) and advertising are two of the various promotional alternatives available to the entrepreneur. If personal selling is appropriate, this section should describe the number of salespeople employed and their compensation. The planned system for sales force training must also be specified. If advertising is to be utilized, a list of the specific media to be used and a description of advertising topics should be included. If you will be using the services of an advertising agency, you should provide the agency's name, credentials, and a brief description of successful campaigns the agency has overseen.

Learning Objective 7.3 – Marketing Research for the Small Business

The Nature of Marketing Research

Marketing research is the collection, analysis, interpretation, and reporting of market information. It is all about discovering the information you seek. A small business often does less marketing research than a large business, in part due to the associated costs and in part because the entrepreneur frequently lacks a fundamental understanding of the research process.

A small business can undertake marketing research without the assistance of an expert; nevertheless, the cost of hiring such expertise is frequently money well spent, since the expert's recommendations may raise revenues or reduce expenses.

Steps in the Marketing Research Process

The typical steps in the marketing research process are (1) identifying the informational need, (2) searching for secondary data, (3) collecting primary data, and (4) interpreting the data gathered.

Step One: Identifying the Informational Need

Identifying and defining your information needs is the first stage in marketing research. Small business owners undertake or commission surveys without always identifying the particular information they require.

Step Two: Searching for Secondary Data

Secondary data refers to information that has already been gathered. Secondary data collection is typically far less expensive than primary data collection. Therefore, after determining their informational requirements, entrepreneurs should exhaust all secondary data sources before continuing their investigation.

Step Three: Collecting Primary Data

If secondary data is insufficient, the next step is to look for fresh information, or primary data. In order to collect primary data, two strategies are used: observational methods and questioning methods. Questioning approaches entail some form of engagement with respondents, whereas observational methods avoid interpersonal contact between respondents and the researcher. When acquiring primary data, we recommend enlisting the help of research specialists.

Questionnaires that are poorly designed may produce results that lead to poor decisions. When designing and testing a questionnaire, keep the following points in mind:

• Pose questions that are directly related to the topic at hand. Assume an answer to each question and then ask yourself how you would use that information as a measure of relevance.

• Determine which type of question, such as open-ended or multiple-choice, is best suited to the subject and survey conditions.

• Think about the order in which the questions are asked. Asking questions in the wrong order might lead to skewed responses to subsequent questions.

· Near the end of the questionnaire, ask the more sensitive questions. Age and money, for example, are typically touchy subjects.

• Choose the words in each question with care. They should be as straightforward, straightforward, and objective as feasible. • Run a small sample of respondents through the questionnaire to ensure that it is representative of the group being surveyed.

It's crucial to keep in mind that formal market research isn't always required. The first decision a business owner should make is whether or not to perform primary research at all. In the following cases, it may be beneficial not to perform formal research:

• Your organization lacks the resources to adequately conduct the study or execute any discoveries that result from the proposed research.

• The window of opportunity for launching a new business or product has closed. If you've been outsmarted, it could be a good idea to wait and see how the market's first entry fared.

• A decision has already been made to proceed. There's no point in wasting money on something that has already been decided.

• You are unable to determine what information is required. Any road will take you there if you don't know where you're going.

• All of the necessary data is already available (that is, secondary information is available).

• The cost of performing the study surpasses the benefits that could be gained.

Step Four: Interpreting the Data Gathered

Tables, charts, and other images can be used to summarize and simplify information for users. During this stage of the research process, descriptive statistics (for example, the average response) are extremely useful. To do statistical computations and generate report-quality graphics, inexpensive personal computer software such as Excel is now available. Marketing research is crucial, but it should be used in conjunction with, not in place of, sound judgment and cautious experimentation when launching new products and services. Finally, the marketing strategy should reflect the entrepreneur's knowledgeable opinion on the most effective marketing strategy for her or his company.

Learning Objective 7.4 – Understanding Potential Target Markets

An entrepreneur needs a thorough knowledge of the term market to construct the market study portion of the marketing plan, which implies different things to different people. It can refer to a physical site where buying and selling occurs ("They went to the market"), or it can relate to sales efforts ("We must aggressively market this product"). Another interpretation, which we will focus on in this chapter, is: A market is a collection of customers or potential customers with spending power and unmet demands. Take note of the three components in this market definition:

1. There must be purchasing units, or customers, in a market. Individuals or businesses can make up these units.

2. A market's customers must have purchasing power. Because no transactions can take place when people lack money and/or credit, they do not represent a viable market.

3. A market must include purchasing units with unmet requirements. Customers, for example, will not buy until they are inspired to do so, which can only happen when the client acknowledges his or her unmet wants.

Market Segmentation and Its Variables

A focus strategy depends on market segmentation and becomes a consideration in competitive markets. Formally defined, market segmentation is the process of dividing the total market for a product or service into smaller groups with similar needs, such that each group is likely to respond favorably to a specific marketing strategy. A generation ago, telephones were purely a landline technology. Today, there are cell phone and smartphone configurations targeted at young versus older segments, tech-oriented versus non-tech-oriented customers, business versus home features. And voice communication can be achieved through technologies that bear no resemblance to phones.

Benefit Variables

The definition of a market highlights the unsatisfied needs of customers. Benefit variables are related to customer needs since they are used to identify segments of a market based on the benefits sought by customers. For example, a single health club may offer services that are used for different reasons and in different ways by different market segments. Older adults might want cardiovascular exercise, young men might be interested in bodybuilding, and young girls may attend gymnastics classes there.

Demographic Variables

It is impossible to implement forecasting and marketing strategy with benefit variables alone. Therefore, small businesses commonly use demographic variables as part of market segmentation. These variables refer to certain characteristics that describe customers, their purchasing power, their consumption patterns, and other factors. They include age, marital status, gender, occupation, and income

Marketing Strategies Based on Segmentation Considerations

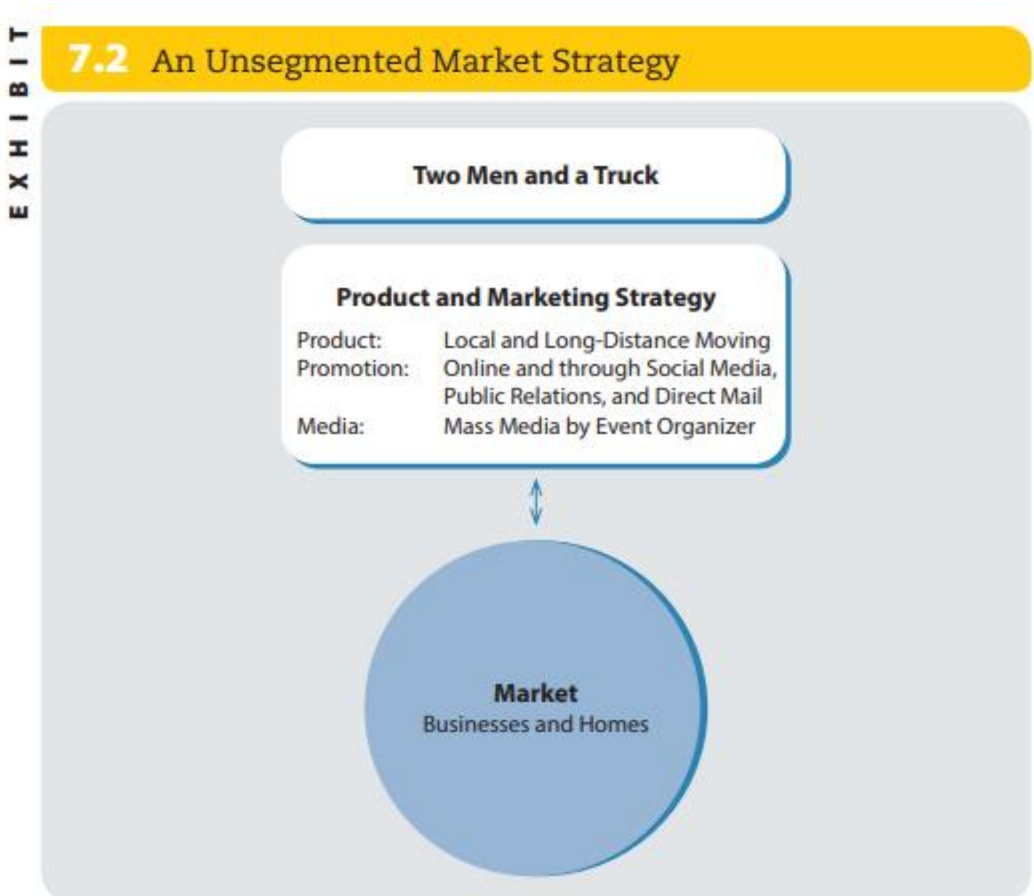
There are several types of strategies based on market segmentation efforts. The three types discussed here are the unsegmented approach, the multi segment approach, and the single-segment approach. Few companies engage in all three approaches simultaneously. Small businesses often lack the resources that these strategies tend to require. But for some, a marketing strategy based on segmentation considerations is the best route to take.

The Unsegmented Strategy

When a business defines the total market as its target, it is following an unsegmented strategy (also known as mass marketing). This strategy can sometimes be successful, but it assumes that all customers desire the same basic benefit from the product or service. This may hold true for water but certainly does not hold true for shoes, which satisfy numerous needs through a wide range of styles, prices, colors, and sizes.

The Multisegment Strategy

With a view of the market that recognizes individual segments with different preferences, a firm is in a better position to tailor marketing mixes to various segments. If a firm determines that two or more market segments have the potential to be profitable and then develops a unique marketing mix for each segment, it is following a multisegment strategy.



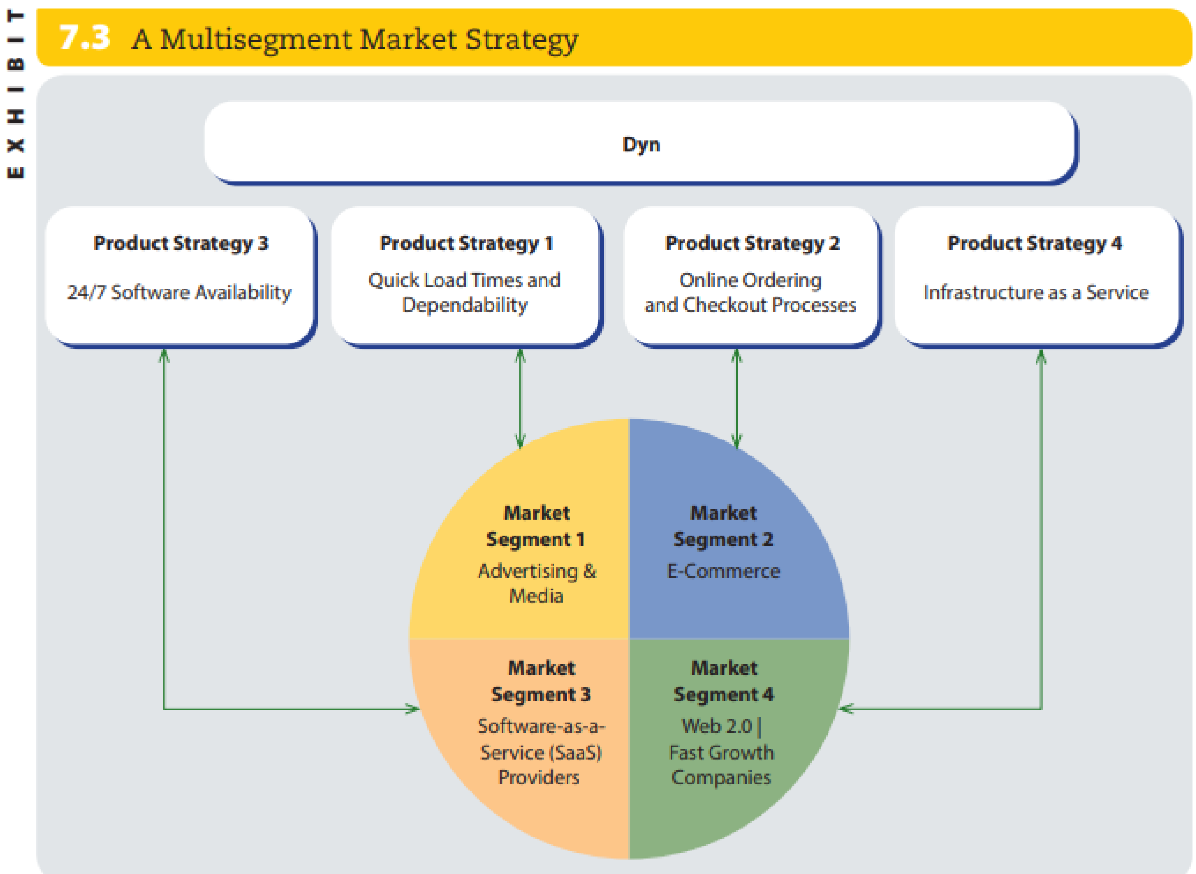
The Single-Segment Strategy

When a firm recognizes that several distinct market segments exist but chooses to concentrate on reaching only the most potentially profitable segment, it is following a single-segment strategy. Once again, a competitive advantage is achieved through a cost- or differentiation-based strategy. Startup Professionals, a team of experts who help entrepreneurs start and grow their ventures, provides products and services that have value for students, retirees, hobbyists, and more, but the founders chose to focus their energies on high-growth-potential ventures. Its market strategy is illustrated in Exhibit 7.4.

The single-segment approach is probably the wisest strategy for small businesses to use during initial marketing efforts. It allows a small firm to specialize and make better use of its limited resources. Then, once its reputation has been established, the firm will find it easier to enter new markets.

Learning Objective 7.5 – Estimating Market Potential

A small business can be successful only if sufficient market demand exists for its product or service. A sales forecast is the typical indicator of market adequacy, so it is particularly important to complete this assessment prior to writing the marketing plan. Many types of information are required to gauge market potential. This section discusses these information needs as it examines the forecasting process.



The Sales Forecast

A sales forecast is an estimate of how much of a product or service can be sold within a given market in a defined time period. The forecast can be stated in terms of dollars and/or units. Because a sales forecast revolves around a specific target market, that market should be defined as precisely as possible. Don't make the mistake of forecasting sales that exceed the size of the market you are serving. If the market for desks is described as "all offices," the sales forecast will be extremely large. But you are probably only selling to a smaller segment, such as “government agencies seeking solid wood desks priced between $800 and $1200.” That will result in a much smaller but more useful forecast. One sales forecast may cover a period of time that is a year or less, while another may extend over several years. Both short-term and long-term forecasts are needed for a well-constructed marketing plan. A sales forecast is an essential component of the marketing plan because it is critical to assessing the feasibility of a new venture. If the market is insufficient, the business is destined for failure. A sales forecast is also useful in other areas of business planning. Production schedules, inventory policies, and personnel decisions all start with a sales forecast. Obviously, a forecast can never be perfect, and entrepreneurs should remember that a forecast can be wrong in either direction, by either underestimating or overestimating potential sales

EXHIBIT 7.4 A Single-Segment Market Strategy

Limitations of Forecasting

For a number of practical reasons, forecasting is used less frequently by small firms than by large firms. First, for any new business, forecasting circumstances are unique. Entrepreneurial inexperience, coupled with a new idea, represents the most difficult forecasting situation. An ongoing business that requires only an updated forecast for its existing product is in the most favorable forecasting position.

Second, a small business manager may be unfamiliar with methods of quantitative analysis (analysis of measurable data). Not all forecasting must be quantitatively oriented—qualitative forecasting is often helpful and may be sufficient—but quantitative methods have repeatedly proven their value in forecasting.

Third, the typical small business entrepreneur and his or her team know little about the forecasting process. To overcome this deficiency, the owners of some small firms attempt to keep in touch with industry trends through contacts with appropriate trade associations. The professional members of a trade association are frequently better qualified to engage in sales forecasting.

Despite the difficulties, a small business entrepreneur should not neglect the forecasting task. Instead, she or he should remember how important the sales outlook in the business plan is to obtaining financing. The statement "We can sell as many as we can produce" does not satisfy the information requirements of potential investors.

The Forecasting Process

Estimating market demand with a sales forecast is a multistep process. Typically, the sales forecast is a composite of several individual forecasts—for example, forecasts for products or product lines, market territories, or customer segments. The process involves merging these individual forecasts properly. The forecasting process can be characterized by two important dimensions: the point at which the process is started and the nature of the predicting variable. Depending on the starting point, the process may be designated as a breakdown process or a buildup process. The nature of the predicting variable determines whether the forecasting is direct or indirect.

The Starting Point

The breakdown process, sometimes called the chain-ratio method, begins with a variable that has a very large scope and systematically works down to the sales forecast. This method is frequently used for consumer products forecasting. The initial variable might be a population figure for the target market. Through the use of percentages, an appropriate link is built to generate the sales forecast.

The Predicting Variable

In direct forecasting, which is the simplest form of forecasting, sales is the forecasted variable. Many times, however, sales cannot be predicted directly and other variables must be used. Indirect forecasting takes place when surrogate variables are used to project sales. For example, if a firm lacks information about industry sales of baby cribs but has data on births, the strong correlation between the two variables allows planners to use the figures for births to help forecast industry sales for cribs.

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Quiz

Identification

1. Data that have been previously collected for some purpose other than the one at hand
2. The process of changing the original form of the data to a format suitable to achieve the research objective; also called data transformation.
3. The observation and analysis of trends in industry volume and brand share over time.
4. The use of secondary data to help specify relationships between two or more variables; can involve the development of descriptive or predictive equations.
5. Techniques that use secondary data to select the best location for retail or wholesale operations.
6. A calculation that describes the relationship between retail demand and supply
7. The use of powerful computers to dig through volumes of data to discover patterns about an organization's customers and products; applies to many different forms of analysis.
8. A form of artificial intelligence in which a computer is programmed to mimic the way that human brains process information.
9. A form of data mining that analyzes anonymous point-of sale transaction databases to identify coinciding purchases or relationships between products purchased and other retail shopping information.
10. Involves mining data to look for patterns identifying who is likely to be a valuable customer.

Answer key

1. **Secondary data**
2. **Data conversion**
3. **Market tracking**
4. **Model building**
5. **Site analysis technique**
6. **Index of retail saturation**
7. **Data mining**
8. **Neutral network**
9. **Market basket analysis**
10. **Customer discovery**