

Marketing

Developing a marketing plan is one of the most important things you can do to ensure that your business will make a profit. This guide is intended to provide an overview of the importance of market research and analysis, product development, pricing, advertising, promotions, publicity, sales and customer service.

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Introduction

Marketing touches every aspect of your business's operation. It is a series of activities designed to identify customer needs and wants, and satisfy these while making a reasonable profit on a quality product or service. These activities include market research and analysis, product development, pricing, advertising, promotions, publicity, sales and customer service. Developing a marketing plan is one of the most important things you can do to ensure that your business will make a profit.

There are six basic reasons for developing a marketing plan:

- ◆ It forces you to identify your target market.
- ◆ It forces you to think about both short and long-term marketing strategies.
- ◆ It looks at your business as a whole and ties together market objectives.
- ◆ It allocates limited resources to create the greatest return.
- ◆ It provides a guide to measure progress and outcome.
- ◆ It gives clarity to who does what, when, with what marketing tools.

Market Research

Marketing research is defined as a series of activities designed to identify customer needs and wants, and satisfy these while making a reasonable profit on a quality product or service.

These activities include market research and analysis. Most entrepreneurs believe that market research and analysis is something that only marketing professionals and statisticians are able to do. This is not the case. Marketing research is simply an orderly, objective way of learning about your potential customers and your competition.

Marketing research doesn't have to be complex and expensive. Moreover, it is not a perfect science; it deals with people and their constantly changing likes and dislikes which can be affected by hundreds of influences, many of which simply cannot be identified.

Two types of market research

Secondary research

Secondary research involves going to already published surveys, books, magazines, etc. and analyzing the information in them in terms of your proposed business. It is called secondary research because you are using information others have developed, but it is usually performed before developing a primary research project. There are many sources of secondary research material. You can find it in libraries, universities and colleges, trade and general business publications and newspapers. Trade associations and government agencies are rich sources of information. The more localized the sources are, the more pertinent they will be to your marketing plan and strategy.

At this point, you should begin a fact book. Keeping a fact book helps organize the information you discover and provides a solid basis for making predictions and business decisions. Market research is an ongoing process and so is keeping a fact book.

If you make a fact book out of the results of your market research, the time it takes to write a marketing plan will be decreased appreciably. Moreover, the fact book will be useful in the day-to-day operation of your new business. You should be adding information to your fact book on a continuing basis.

The fact book should contain at least four sections:

- 1) the industry,
- 2) the competition,
- 3) your products and/or services, and
- 4) your customers

After your business has been in operation for a while, you will want to review the information gathered for the fact book. You can use this information and any current information to update your marketing plan.

Primary research

Primary research is original and direct, as opposed to secondary research, which is reviewing other researchers' and writers' work. Primary research can be as simple as asking for various peoples' reactions to your business idea, or as complex as the surveys done by sophisticated professional marketing research firms. Primary research includes such tools as direct mail questionnaires, telephone or "sidewalk" surveys, experiments, panel studies, focus teams, test marketing, behavior observation, etc. The complexity of the study will determine whether or not you need professionals to implement and analyze it.

You might be surprised at how inexpensively primary research can be carried out, especially if you give the marketing professional maximum dollar limit. Often colleges, universities and business schools are looking for opportunities for their students to do primary marketing research.

Summary - Market research

In many cases marketing research is limited only by your willingness to put the time and effort needed into doing it. Much of it you can do yourself at very little cost. The key to effective marketing research is useful information. To be useful, information needs to be timely, as comprehensive as possible, and accessible.

Developing a Marketing Plan

Because the marketing plan is a section of the overall business plan, some of the information you need in it duplicates information presented in other sections. For example, your marketing plan needs to have a mission statement that not only states the purpose of the marketing plan, but also explains why you are in business, giving both personal and business goals. Your marketing plan's mission statement will review your business goals and objectives and identify marketing strategies that will attain them. (Note: sample marketing plan outline on page 14.)

Mission Statement

The mission statement specifies the business goals and objectives, and it outlines what strategies will be employed to reach them.

Identify products and/or services

In the marketing plan you will identify each product or service in terms of:

- √ Name
- √ Trademark
- √ Color
- √ Shape or,
- √ Other characteristics, including packaging and labeling.

You also will differentiate products/services in terms of exclusive processes or superior ingredients and other features. You may identify product weaknesses, with the knowledge that your marketing strategy will need to create a demand that overrides the specific weakness.

Pricing is another essential of your marketing strategy. You have to price each product/service in relation to its cost and the percent of annual sales and total dollar amounts it represents. (See pricing on page 6; cost analysis page 9.)

The market

In the business plan chapter, you learned, you need to identify your market quite specifically. You must determine its size, who your competitors are, and what features of your product or service will better satisfy customers. This information enables you to determine your market share and your most likely potential customers. A customer-oriented marketing style will capture a greater market share than one centered on just the product or service.

You catalog potential customers by their needs and wants. Customers can be identified according to their social demographics and geographic location. This information is basic for your research. Understanding the difference between wants and needs will help you prepare a focused plan. For example, if the need is transportation, the want - the specific vehicle desired - may be affected by the person's cultural, economic, and geographic environment.

NEED [Transportation] Related to [Specific individual/s] = WANT

Customer	Luxury Sedan	Convertible	Pick-up	Van	Jeep
Suburban male teen					
Rural male teen					
Soccer Mom					
Outdoors person					
Middle class grandparent					

The example above is a simplification of the many variants that translate a need into a want. The purpose of customer-oriented marketing is to satisfy customers by identifying potential customers' needs and turning them into customers' desires for specific products/services, thus, creating demand. Translating customers' needs into demand for specific products or services is a fundamental goal of marketing.

Once you have identified your target customers. Include the following information about them:

- ⇒ All demographic, lifestyle and purchasing power information.
- ⇒ Location (local, regional, national or international).
- ⇒ Factors in their selection of products/services and brands, including resistances.
- ⇒ The size of the total target market.
- ⇒ Target market trends - include information about market studies and test marketing.

(Visit www.missouribusiness.net for business information sources.)

Competition - Direct and indirect

In order to be successful in your new business, you need to know your competition. With your direct competition, you need to determine who and how strong they are. By researching your competition, you will learn a great deal about managing your own business. Areas you need to research are listed below:

- Identify the top five competitors in your market.
- Determine their similarities and differences to the business you are planning.
- Identify and compare your company's and your competitors' strengths and weaknesses.
- Identify methods for making your operation better than theirs.
- Determine whether their business is increasing, decreasing or level.
- Compare your marketing techniques with those of your competitors.

Indirect competition is comprised of the cultural, legal, educational, and socio-economic barriers to marketing your product/service. For example, an educational product/service might be targeted at a specific group based on an educational need, but a cultural bias or economic situation might keep them from purchasing it.

Pricing

Pricing a product or service begins with an understanding of the total cost of the product or service, and includes other issues. Markup percentage is based on the cost of the product multiplied by one plus the percent of markup desired (cost x 1.50 is a 50% markup). Gross margin percentage is based upon the gross margin divided by the retail price ($\$5.00 / \$15.00 = 33\%$). Understanding the total cost allows you to look at the margin or profit that you want to obtain. This is limited by the retail price of the competition.

Both internal and external factors influence the process of pricing a product or service. Internal variables include total cost and the overall goals of the company. External pricing determinants are more related to the market situation and the competition. Both internal and external factors must be considered by business owners when initially developing a comprehensive pricing strategy.

Internal pricing variables

Before pricing a new product or service, business owners must have a thorough understanding of the total cost of production and distribution. Total cost is all encompassing. It includes expenses for research and development, manufacturing, distribution, capital, labor and overhead.

All expenses involved with initially creating the product or service fall under research and development. Costs directly associated with raw materials used in production of the product are

manufacturing costs. Distribution costs include everything related to direct distribution and marketing, specifically sales commissions, advertising, packaging, promotional materials, trade shows, business travel, etc. All long-term or fixed assets are capital expenses. Labor costs are those costs associated with the time spent making the product. A business owner must include his or her time as part of the labor costs. Overhead expenses that are not directly related to production also need to be included. Examples of these costs are rent, utilities, telephone, insurance, supplies, etc.

Pricing strategies must complement the business's overall goals and strategies. Price strategies will differ based on the owner's business objectives. For example, to achieve market penetration, a business owner may decide to price the product or service below the competition. This approach is used to gain market share and to establish entry into a new market.

External pricing variables

The entire market situation must be analyzed before developing price schedules for your business. Pricing strategy will be influenced by the market size, growth rate, life cycle issues/stages, and barriers to entry or exiting. Industry trends and fluctuations also impact your pricing decisions. In fact, all of the aforementioned factors must be considered before establishing your pricing schedules.

Pricing options are often limited by the competition's pricing strategy. This occurs primarily when the products or services are similar or are viewed as commodities. Therefore, it is imperative to know the various pricing strategies used by the competition. Product differentiation may allow a business to price their product or service substantially above the competition's price.

Business pricing strategies

There are numerous pricing strategies the business can use to complement the stated business goals. The most common are market penetration, skimming, and follower pricing.

Market penetration -- Market penetration is accomplished through a comprehensive promotional campaign, which may include pricing the same product or service below the competition in order to gain market share or to establish entry into the marketplace. This strategy may limit profits in the early stages of a business. It is crucial to understand your costs and to determine if the projected sales and corresponding profits will be sufficient to sustain your business. The new business may benefit by offering improved customer service. Market penetration is an aggressive strategy that impacts company profits, especially during the early stages of business development. It is important to monitor how the competition reacts to your tactics and strategies, and make the necessary adjustments.

Skimming -- This strategy involves setting the price for your product or service high in order to "skim" the market demand. New businesses need to focus on building sales, but not at the expense of profits. Skimming may help a new business realize high profits initially. However, this pricing strategy becomes ineffective because it allows the competition to enter the market under the high price strategy. This strategy is most effective whenever the business owner is

protected by a strong patent or plans to make as much profit as feasible and move on to another opportunity.

Follower pricing -- This strategy entails the business owner adopting “follow-the leader” approach and setting prices in response to all major competitors. This is a reactive strategy that assumes that the dominant leader will not respond to price competition from the new product or service. You must be able to keep your costs to a minimum, if you are to be successful. If you cannot adequately control your costs, your competition will exploit this advantage...at your expense.

Production costs

Production costs include labor costs and material costs. Labor costs are those costs associated with the time spent making the product. You must include your time as part of the labor costs. Material costs are those costs directly associated with raw materials used in production of the product. These would include any value-added costs associated with the product.

Non-production costs

Non-production costs include overhead expenses, marketing expenses, and the profit margin required by the business to cover total costs and provide a reasonable return on investment to you. Overhead expenses include rent, utilities, postage, telephone, supplies, etc. These expenses are incurred by the business but are not directly related to the production of the product. Marketing expenses include sales commissions, advertising, packaging, promotional materials, trade shows, business travel, etc.

Cost analysis, price and profit margin

(+) Production Costs (labor + materials)
 (+) Non-Production Costs(overhead + marketing + profit)

(=) Total Costs (all costs)

Total Costs x Markup Percentage = Retail Price
 (\$10.00) x (1.50) =(\$15.00) } markup 50%

(-) Retail Price \$15.00
 (-) Total Costs \$10.00

(=) Gross Margin Percentage \$5.00 } gross margin 33%

Profit

Profit is the amount left after production costs and non-production costs are subtracted from gross revenue. Growth of a business can only come with reasonable profits that allow you a reasonable return on investment. In addition, some of the cash flow and profits must be turned back into the business to sustain inventories, accounts receivable, capital equipment purchases, and other assets. Depending on the nature of the business, a certain amount of asset structure is needed to support sales. The larger the sales level, the larger the asset structure needed to support the sales growth. This requires that some of the profit be returned to the business in order to sustain growth.

Distribution

Distribution refers to the methods used to deliver products to the consumer. It is important to evaluate which method of distribution is used most successfully within the industry. You must also determine if new channels or methods of distribution are emerging.

Promotion mix

This section of your marketing plan will develop a program of marketing activities -- your marketing mix. Your marketing campaign should be at least a year in duration, taking into account the many seasonal factors that affect customers' purchasing habits.

During your marketing research, you identified the strengths and weaknesses of your potential business and product or service. You need to be aware of your weaknesses, to improve upon them, and make sure your competition doesn't exploit them. You should be aware of your strengths and capitalize on them through your promotion and advertising. You need to find the best medium (newspaper/radio/other) to get the message to potential customers. Plan advertising messages to emphasize the strengths of the products, services, and the people of your business to your potential customers.

The business name

Choosing a name is an extremely important marketing decision. Catchy names may seem clever, but they often tell nothing about the service or product of the business. The business name is a primary marketing tool and should contain a clear message of the product or service provided. Trademarks and logos also are marketing tools and serve as cues or reminders to customers.

Advertising

Advertising starts with knowing who your customers are and choosing only the correct media to reach that target audience. The portfolio approach is to use several types of media to get the message to the target market. Some advertising approaches will work for you, some will not. Because of this, it is good to review your advertising calendar and budget regularly. Use the advertising media that yield good results for you, and seek alternative forms of advertising and delivery systems for the ineffective approaches.

Promotion and advertising are important functions of a business. Careful consideration must be given to planned events that will educate customers and heighten their awareness of your product or service. Include free publicity in your program. For example, take advantage of your grand opening as a news event. Include community celebrities in the activities to attract news coverage. The seasonal aspects of your product/ service, the slow times, and the busy times, all must be considered when choosing the appropriate media to use to get maximum exposure and impact in the target market for the dollars spent.

Advertising budget and schedule

Plan to spend the majority of your advertising dollars during the peak period for purchasing the type product/service you offer. There is a sample advertising calendar form in the handouts.

Your overall marketing/advertising plan should be done well in advance of starting or expanding your business. That is why it is a component of your business plan. This

planning may require meeting with sales representatives from different advertising media to find out their package deals, pricing, frequency, geographic area, and circulation or estimated audience. For example, having a business phone number provides you with a listing in your local yellow pages. You also may wish to pay for a listing in adjacent communities. Display advertising in the yellow pages is expensive and may not be cost effective for your business. This is one of the decisions you will make early. Industry associations may provide guidelines about how much their members spend on advertising and promotion. Competitors' activities also will influence your advertising and promotion spending. If a total advertising plan and budget is developed in advance, it allows scheduling of adequate cash flow to cover the costs. It also allows for quantity discounts in total ads purchased, provides the most beneficial ad time slots or space, allows lead time to plan special sales campaigns, and allows time to proof scripts or copy before they are used.

The advertising and promotion plan will need to be evaluated and revised frequently to identify the media, types of advertising, and promotions that have the most success in reaching your target market and adjust their use.

Image is critical

The first thoughts that come to your customers' minds when they think about your business are of utmost importance in their decision to purchase products or services from you. Your color scheme, logo, or trademark should appear on all stationery, advertisements, signage, and any other promotional efforts. This includes internet and website marketing efforts. You must be consistent in all your promotion and advertising materials to strengthen your image relative to your competitors.

Customer service

Customer service is a part of the customer's total concept of your business and product/service. While it is not visible, it is part of your image. Customers expect friendly, prompt, courteous service. Good customer service may be the most critical aspect of any marketing campaign. Satisfied customers return and bring their friends and acquaintances with them.

Location, location, location

Promotion of a business through exposure and the word of mouth it receives from pedestrian passers-by and auto traffic count is a basic element of your marketing strategy. A location that provides a high exposure to pedestrians and auto traffic may have enough local promotion to sustain itself. If so, the remainder of the marketing effort should be used to create customer demand, which increases revenues and produces the profits needed for business growth. Some businesses do not need high visibility to pedestrians and auto traffic because they have a specialized product/service that creates its own demand or is unique. In this case, location becomes important for accessibility and customer service. For other businesses, marketing from a home computer on the internet may take the place of all person-to-person contact with the

customer. In this case, the ease and speed of distribution would become the primary factor in choosing your location. (See also distribution in the sample market plan outline, p. 14.)

Sales Forecasting

In an earlier section of your business plan you have forecasted total sales figures for three years. In your marketing plan, you need to be more specific. You need to project sales for each product/service and you need to have a close estimate of total potential sales volume. Three main sources of data can help to answer this question. The three sources are census data, previous marketing research data, and the data from a custom designed marketing research project. The first two are secondary data and the last one primary data. The main characteristics of each source of data are presented in the table below. (See also market research, p. 2.)

Source of Data	Main Characteristics			
	Depth	Broadness	Accuracy	Price
Census Data	Small to medium	Variable from large to very large depending on the source used	Medium to high , related to the broadness of the source	Low , most of the time available in the library
Existing Surveys	Generally high depth, depending on the initial target market size	Small to medium , depending on the original research needs	Medium to high , due to the original research objectives	Low to medium
Special Marketing Survey	Very high depth of the data collected, directed to the market target	Small , depending on the ability of the researcher to define the target market	High , if the objectives of the research were clearly defined	Very high

Census data offers the broadest view of your potential market at the lowest cost. The next step is to find relevant existing surveys. Generally the chance that this type of data will match your current needs is low; but when it is found, it is extremely helpful in identifying your target market.

Action Plan

The action plan lists and prioritizes all the marketing strategies and activities you have identified. For example, having business cards printed will be a top priority in your marketing action plan. Your action plan will include at least a yearlong schedule of activities, similar to the advertising calendar discussed earlier. Having a time frame for the completion of each activity is quite important.

A realistic projection of your production and customer service capabilities is paramount to the success of any marketing plan. Your business needs to be able to meet the demand you generate in a timely, customer-oriented, profitable manner.

Production

It is important to determine the level of production necessary to meet sales forecasts. These plans will impact on your capital needs, equipment expenditures, personnel needs, and other business demands.

Summary - Marketing Plan Outline

As with the overall business plan, the marketing plan must be used, evaluated and revised. Frequent evaluation of your progress and the flexibility to make necessary changes are key elements in achieving and maintaining business success.

Sample Marketing Plan Outline

I. Mission Statement

- A. State the purpose of the marketing plan.
- B. Explain why you are in business, both personal and business goals.
- C. Review business goals and objectives as well as specific strategies to reach them.

II. Product/Service

- A. Identify each service and product specifically. For product, identify in terms of name, trademark, color, shape, and other characteristic, including packaging and labeling.
- B. Differentiate products/services in terms of exclusive processes or superior ingredients and other features.
- C. Describe product/service weaknesses.
- D. Describe product lines, and new products/services that will be introduced.
- E. Give cost of each product/service.
- F. Give the price you plan to charge for each product/service
- G. Identify percent of annual sales and total dollar amount each product/service represents.

III. Market

- A. Identify your customers - include all demographic and lifestyle information.
- B. Identify location of customers (local, regional, national or international).
- C. Identify factors in customer selection of the products/services and brands, including remittances.
- D. Identify the size of the total market
- E. Identify market trends, including information about market studies and test marketing.
- F. List factors that affect purchasing such as: 1) seasons, 2) obsolescence, 3) tax considerations, 4) price, availability, service, 5) emotional considerations, and 6) all other factors.
- G. Will promotional activities be concentrated in specific markets?

IV. Competition (Direct and Indirect)

- A. Identify competitors by divisions, product lines and markets.
- B. Identify and compare your company's and your competitors' strengths and weaknesses.
- C. Compare your marketing techniques with those of your competitors.

V. Pricing

- A. Review product/service costs for accuracy including all variable and fixed expenses.
- B. Be sure all products/services carry their share of expenses plus provide for profit.
- C. Compare prices for your products/services with similar products/services in the industry.
 1. If your prices will be higher, they need to provide the necessary "added value" to justify.
 2. If your prices are lower, explain why in terms of your marketing strategy.

VI. Distribution

- A. Identify the most effective methods for getting products/services to customers in the target market.
- B. Identify need for warehousing of products and for distribution channels if not sold direct to buyer.

VII. Promotion Mix

- A. Describe potential advertising program - discuss the following:
 1. Possible use of ad agency and/or in-house ad department
 2. Media choices, how selected and target audience
 3. Project expenditures for each medium and product/service
- B. Describe potential public relations/publicity activities - i.e. business opening.

VIII. Sales Forecasting

- A. Review sales history of competitors through secondary research.
- B. Show recent sales trends in industry.
- C. Make any seasonal adjustments.
- D. Project sales and income for next four quarters. (See business plan cash flow projections.)

IX. Action Plan

- A. List all marketing strategies/activities.
- B. Prioritize all strategies by levels of importance.

XI. Production - Determine level of production/service necessary to meet demand generated by marketing.

Summary

The marketing plan is central to the business plan. Marketing research helps you define your product or service, the target market, and the competition. Pricing your product is an important step that must begin with an understanding of the total cost of the product or service. Markup percentage, gross margin percentage, production costs, non-production costs, and profit must all be considered when deciding price. Promotions and advertising should be planned for at least a year in advance, taking into account seasonal fluctuations, high and low sales times, competitors' activities, and opportunities for free publicity. Customer service may be the most important element in your total marketing strategy. Use, evaluate, and revise your marketing plan regularly.



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