

Developing a Marketing Plan

Mission Statement

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

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.

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 helps 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.

Competition - Direct and indirect

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 business.

- 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.

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 marketing vehicles to get the message to 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 vehicles to reach that target audience. The portfolio approach is to use several types of media to get the message to the target market. Some approaches will work for you, some will not. It is essential that you review your marketing calendar and budget regularly. Use the media(s) that yield good results for you, and seek alternative forms 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.

Marketing budget and schedule

Plan to spend the majority of your marketing dollars during the peak period for purchasing the type product/service you offer. 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.

Image is critical

The first thoughts that come to your customers' minds when they think about your business are extremely important in their decision to purchase products or services from you. Your color, logo, and tagline (if applicable) should appear on ALL 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 visibility is a basic element of your marketing strategy. A location that provides a high exposure to pedestrians and drive-by 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 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. Internet based businesses may take the place of all person-to-person contact with the customer. In this case, the quality of your web presence and the ease and speed of distribution would become the primary factor in choosing your location.

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 of your marketing calendar. Having a time frame for the completion of each activity is important.

Use, evaluate, revise!

Like the 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.

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.