The Marketing Plan
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.

• 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

- **Core Product/Service**: Basic physical product/service that delivers the benefits.
- **Actual Product/Service**: Basic product/service plus extra or unsolicited benefits to the consumer.
- **Augmented Product/Service**: Fundamental benefit or solution sought by customers.

Basic physical product/service that delivers the benefits.

Basic product/service plus extra or unsolicited benefits to the consumer.

Fundamental benefit or solution sought by customers.
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.

• 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.
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.
7.1 The Marketing Plan and Supporting Marketing Activities

The Marketing Plan
- Market Analysis
- The Competition
- Marketing Strategy
  - Product/Service
  - Distribution
  - Promotion
  - Pricing

Marketing Research

Market Segmentation

Sales Forecasting
• 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
• 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.
• 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.

• 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.
An Unsegmented Market Strategy

**Product and Marketing Strategy**
- **Product:** Local and Long-Distance Moving
- **Promotion:** Online and Through Social Media, Public Relations, and Direct Mail
- **Media:** Mass Media by Event Organizer

**Market**
- Businesses and Homes

Two Men and a Truck
A Multi-Segment Market Strategy

Product Strategy 1
24/7 Software Availability

Product Strategy 2
Quick Load Times and Dependability

Product Strategy 3
Online Ordering and Checkout Processes

Product Strategy 4
Infrastructure as a Service

Market Segment 1
Advertising and Media

Market Segment 2
E-Commerce

Market Segment 3
Software-as-a-Service (SaaS) Providers

Market Segment 4
Web 2.0 | Fast Growth Companies
A Single-Segment Market Strategy

Marketing Strategy
- Market: High-Growth Entrepreneurs
- Promotion: Internet and Social Network
- Media: Online versions of National Magazines and Newspapers

- Product D
  - Executive Mentoring

- Product A
  - Early Stage Startup Starter Kit

- Product C
  - Develop a Business Plan

- Product B
  - Incorporate a Business
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

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

*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
<table>
<thead>
<tr>
<th>Key Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>actual product/service</td>
</tr>
<tr>
<td>augmented product/service</td>
</tr>
<tr>
<td>benefit variables</td>
</tr>
<tr>
<td>breakdown process (chain-ratio method)</td>
</tr>
<tr>
<td>buildup process</td>
</tr>
<tr>
<td>core product/service</td>
</tr>
<tr>
<td>customer profile</td>
</tr>
<tr>
<td>demographic variables</td>
</tr>
<tr>
<td>direct forecasting</td>
</tr>
<tr>
<td>indirect forecasting</td>
</tr>
<tr>
<td>market</td>
</tr>
<tr>
<td>market analysis</td>
</tr>
<tr>
<td>marketing mix</td>
</tr>
<tr>
<td>marketing research</td>
</tr>
<tr>
<td>market segmentation</td>
</tr>
<tr>
<td>multi-segment strategy</td>
</tr>
<tr>
<td>primary data</td>
</tr>
<tr>
<td>sales forecast</td>
</tr>
<tr>
<td>secondary data</td>
</tr>
<tr>
<td>segmentation variables</td>
</tr>
<tr>
<td>single-segment strategy</td>
</tr>
<tr>
<td>small business marketing</td>
</tr>
<tr>
<td>unsegmented strategy (mass marketing)</td>
</tr>
</tbody>
</table>