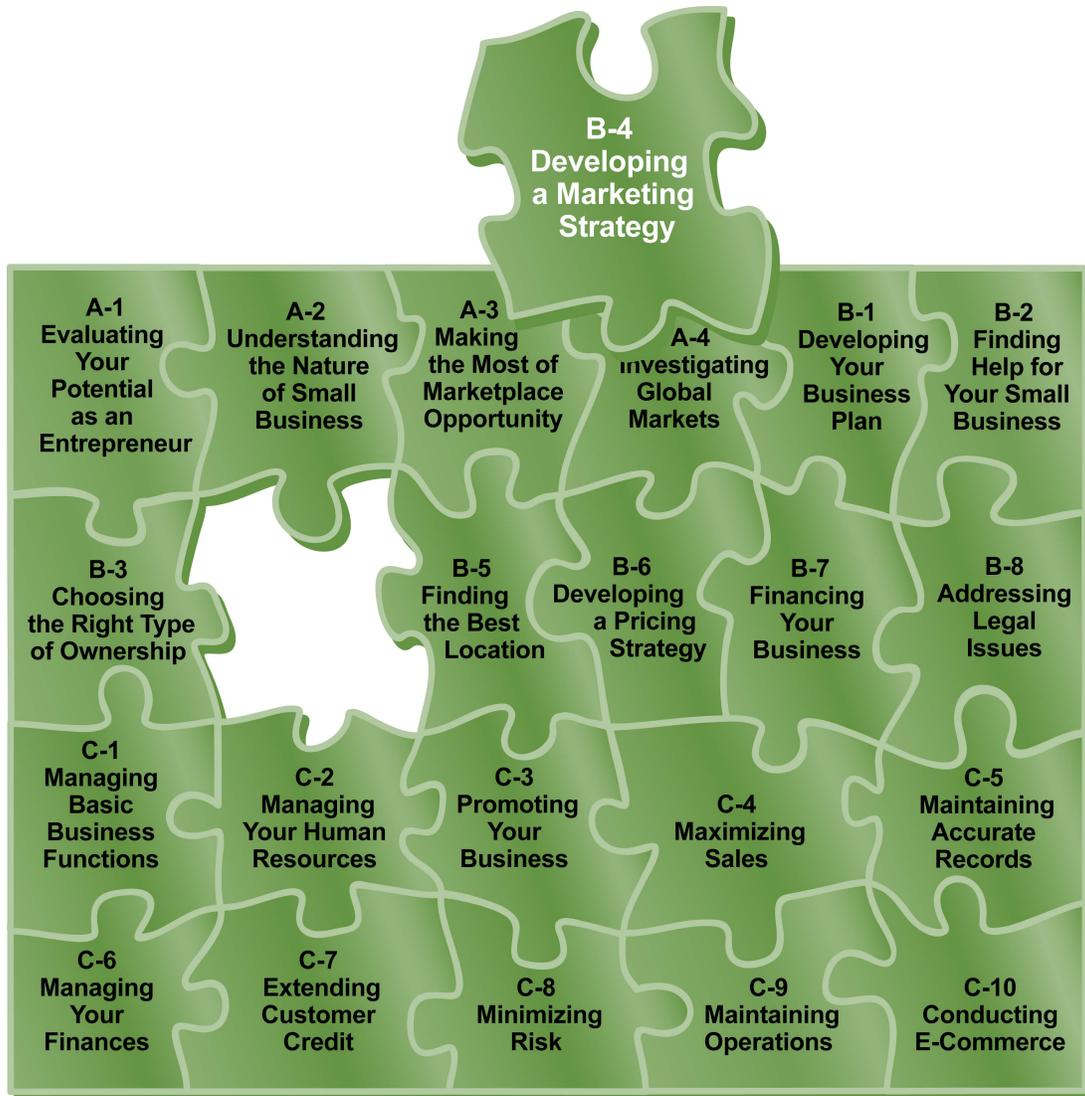


# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship

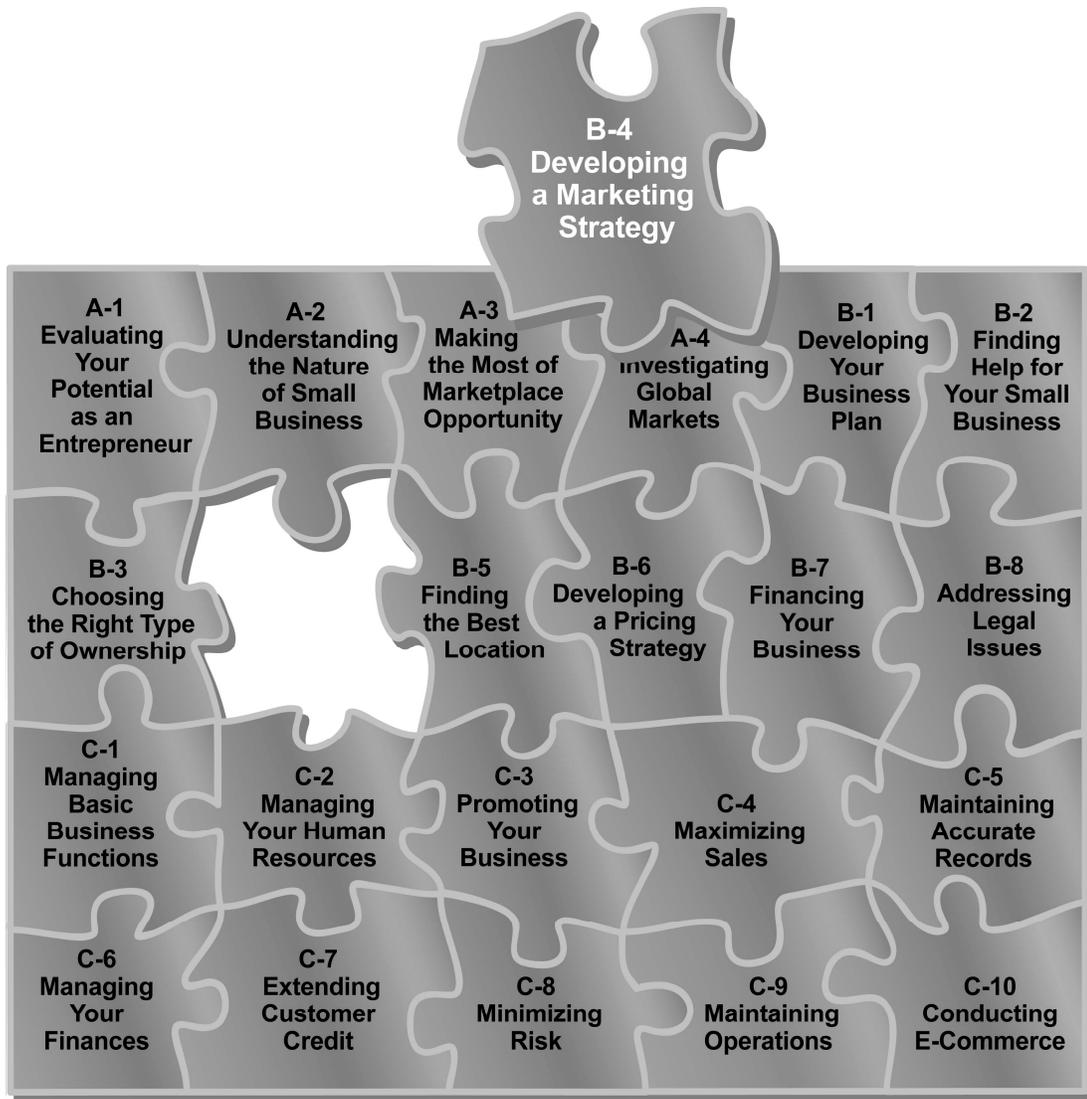




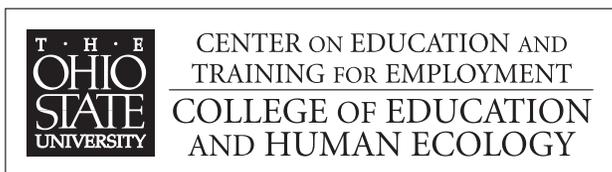
# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship



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This version of PACE was supported in part by a grant from OSU Extension.

## Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs  
Director  
Center on Education and Training for Employment



# Overview

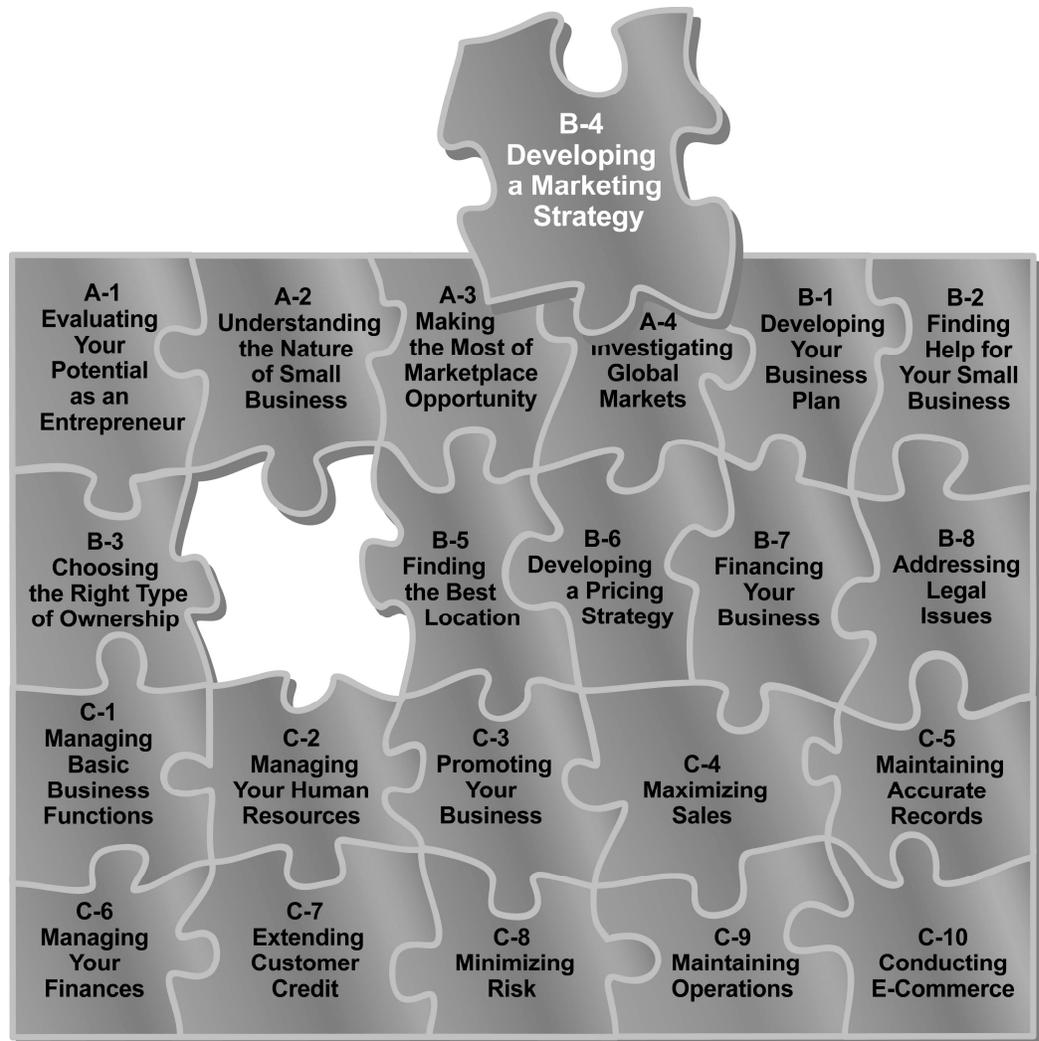
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## Introduction

The careful development of a marketing strategy, from market analysis to the final marketing plan, is one of the most important activities that you'll carry out as an entrepreneur. Whenever goods are sold or services provided, you have to make some marketing decisions that increase the probability that the consumer will choose your product over the competition.

Key point: Although a smart entrepreneur makes and then modifies marketing decisions each day, your overall marketing strategy will keep you headed in the right direction.

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## Overview, Continued

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**Rationale** Your market holds many keys to your future business success. By carefully considering each and every detail of your market and developing a plan to maximize these market characteristics, you can be successful for many years to come.

---

**Objectives** By the conclusion of this module, you will be able to:

- Describe marketing including:
  - a brief synopsis of the free market system
  - types of marketplaces
  - an overview of the disciplined approach to marketing
  - the stages of developing a marketing strategy.
- Explain the purpose of the situational analysis and identify its components.
- State the characteristics of sound marketing objectives.
- Describe the process of selecting target markets by analyzing consumer demand.
- Describe the design of a strategic market mix including:
  - the 4 Ps of the marketing mix
  - developing the right mix
  - goods classification
  - life cycle analysis.
- Name the sections of the written market plan and state the benefits of each.

---

**Relevant NCSEE standards** This module aligns with the following National Content Standards for Entrepreneurship Education (NCSEE):

- L.15 Select target markets.
- L.17 Explain the concept of marketing strategies.
- L.18 Describe the nature of marketing planning.
- L.20 Develop marketing plan.

More information on the NCSEE is available at [http://www.entre-ed.org/Standards\\_Toolkit](http://www.entre-ed.org/Standards_Toolkit).

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*Continued on next page*

## Overview, Continued

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### Topics

The topics in this module are:

<b>Topic</b>	<b>See Page</b>
What Is Marketing?	4
Stage I – Conduct a Situational Analysis	8
Stage II – Set Marketing Objectives and Define Measurable Goals	9
Stage III – Select Target Markets and Measure Market Demand	10
• Consumer Decision-Making Process	11
• Market Value Determinations	15
• Differences in Marketplaces	18
• Target Market Identification	19
• Types of Marketing Research	21
• Evaluating Marketing Strategies	24
Stage IV – Design a Strategic Marketing Mix	28
• Product	29
• Promotion	37
• Price	39
• Place	40
• Developing the Right Mix	42
• Goods Classification	44
• Life Cycle Analysis	48
Stage V – Prepare an Annual Marketing Plan	49

---

### Exhibits

The exhibits in this module are:

<b>Exhibit</b>	<b>See Page</b>
Marketing Plan Template	53

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### Before you begin

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

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# What Is Marketing?

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## Definitions

*Marketing* is a system of business activities designed to plan, price, promote, and distribute goods and services and attract customers to buy in order to meet organizational objectives.

*Marketing concept* is the vision that a business has to provide customer satisfaction with the long-term goal of making a profit. If you adopt a marketing concept, you commit to basing your management decisions on achieving customer satisfaction.

---

## Example

This morning Sue was awakened by an alarm clock made in Japan. The manufacturer used internal parts from Switzerland to make the clock, and the plastic casing was molded in the US. Sue bought the clock with a rebate that offered a reduced price.

She went downstairs to a breakfast of orange juice, milk, and cereal. The juice was made from concentrate prepared in Indiana using Florida oranges. It was shipped by rail to a packaging plant in Illinois and transferred to a wholesaler in Sue's town. Then it was transported by truck to Sue's corner market.

The cereal was made from wheat grown in Kansas and processed in Michigan. Then it was transported to the supermarket. Sue first heard about this particular brand of cereal from a TV ad. The milk came from a farm 10 miles away. But before Sue bought it nearby, it was delivered to a processing plant 300 miles away where it was processed and packaged.

Sue stored her juice and milk in a refrigerator made mostly of metals. The metals were mined in Venezuela, smelted with coal and coke from Pennsylvania, and then shipped to the manufacturer's stamping plant in Iowa. The manufacturer assembled the unit with motors from Ohio, paint from New York, light bulbs from Massachusetts, and a wide variety of other components from around the world. The refrigerator manufacturer had to arrange sales with a local appliance store to sell that brand, and finally the salesperson sold it to Sue. Sue had seen the refrigerator advertised in the newspaper.

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## Exercise

Reread this example and circle the parts of the story that relate to marketing. You can see how many marketing decisions were made in many different parts of the world that affected Sue's morning.

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*Continued on next page*

## What Is Marketing? Continued

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### Rationale

Your marketing plan should satisfy everyone involved in the business operation. Your primary concern is to offer customers what they want so that you'll make a profit. By doing so, you choose the right market and entice consumers to purchase your goods or services on a continual basis.

Example: If Sue disliked the orange juice, she wouldn't buy it on her next shopping trip. This would lower the volume of juice sent to the store, which would impact everybody from the supermarket to the orange grower.

---

### Free market system

The American economy is a free market system. This means that business owners are allowed to sell any goods or services that they want to offer. And consumers can spend their money to buy any product that they select.

**Cost** – In most cases, you are free to charge whatever you choose for the product you're selling. With the exception of oil, electricity, and other government-regulated goods, consumers are free to shop among several businesses until they find the best price for the item they want to buy.

**Making choices** – The free market is efficient, but business owners don't always make sound decisions. They sometimes offer products that consumers aren't interested in or can't afford. The failure to make a profit could stem from prices that are too high and out of the consumer's range. Or business owners could price products too low and project an image of poor quality.

**Supply and demand** – The free market system is based on supply and demand as follows:

<b>If...</b>	<b>Then the demand is...</b>
consumers want more of a product than the business can provide	high and the price usually increases.
more of a product is available than consumers want to buy	low and the price usually decreases.

Key point: The market functions most efficiently and satisfies the most people, both business and consumer, when the firm provides just as much product as consumers want to buy from them. Then prices will be high enough for the business to pay for producing and marketing the item and to make a reasonable profit.

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## What Is Marketing? Continued

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### Types of markets

Three types of markets exist in the American economy.

**Consumer market** – This market consists of individual buyers or households that buy products for personal use and do not intend to make a profit.

**Industrial market** – Industrial markets are individuals or organizations that make purchases to resell the product for a profit or use it in the operation of their own business. The types of industrial markets are:

- **Producers** – These are individuals or organizations that buy products to be used in the production of their own goods. Buyers of raw materials, purchasers of semi-finished and finished items used to produce other products, and service businesses are part of the producer market.
- **Resellers** – These are wholesalers and retailers who buy finished goods and then resell them for the purpose of making a profit.
- **Government** – This market includes federal, state, county, and local governments. They spend billions of dollars annually for a variety of goods and services to support their operations and provide taxpayers with products that they need.

Examples: This market provides items as diverse as highways and schools and law enforcement.

**Non-business market** – This market consists of institutions and groups with non-profit service goals. They serve a particular group or provide a social service.

Examples: This market includes groups such as churches, civic and professional clubs, and charitable organizations.

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## What Is Marketing? Continued

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### Macro vs. micro marketing

Marketing has two levels – macro-dimensional and micro-dimensional.

**Macro-dimensional** – The macro-dimensional view states that marketing is an exchange intended to satisfy human wants or needs.

**Micro-dimensional** – The micro-dimensional view consists of the total system of activities for planning, pricing, promoting, and placing the product that satisfies those human wants and needs in the marketplace.

---

### Disciplined approach

A disciplined approach to marketing is comprised of three distinct components – the marketing background, marketing plan, and evaluation. This is similar to a feasibility study.

**Marketing background** – The marketing background includes:

- the business review, or situational analysis
- a list of challenges identified during the situational analysis and the opportunities arising from those challenges.

**Marketing plan** – The marketing background serves as the basis for the actual marketing plan. This blueprint begins with sales objectives and ends with a budget and calendar of marketing activities required to realize the sales objectives. The marketing plan outlines the steps for success in the marketplace and should include a measurable goal.

**Evaluation** – Once the plan has been implemented, it must be continually evaluated to ensure its effectiveness. Although it's the last step in the process, evaluation is a major part of preparing a marketing plan.

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### Developing a marketing strategy

The stages of the strategic planning process are:

Stage	Description
1	Conduct a situational analysis.
2	Set marketing objectives and define measurable goals.
3	Select target markets and measure market demand.
4	Design a strategic marketing mix.
5	Prepare an annual marketing plan.

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## Stage I – Conduct a Situational Analysis

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**Definition**      *A situational analysis* is a review of the existing marketing program already in place.

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**Rationale**      By evaluating where the program has been and where it is now, you can determine where the program should go in the future.

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**Contents**      A situational analysis includes these components:

- an assessment of the external environmental forces and the non-marketing resources surrounding the business marketing program
- a detailed review of the company's present marketing mix – product, promotion, price, and place.

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## Stage II – Set Marketing Objectives and Define Measurable Goals

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### Introduction

The goals at the marketing level are closely related to the company-wide goals and strategies. As with organizational goals, marketing objectives should be:

- realistic
- specific
- measurable
- consistent
- achievable
- in writing.

Example: The organizational goal is to realize a 20 percent return on investment next year. One strategy is to reduce marketing costs by 15 percent. This organizational goal translates directly into a marketing objective.

---

## Stage III – Select Target Markets and Measure Market Demand

---

**Definition** The *target market* is a group of potential customers with similar needs whom you strive to satisfy with your product.

---

**Key activities** The target markets that you select for your product is a key step in developing a marketing plan. When addressing target markets, complete these activities:

- Analyze existing markets in detail
  - Identify potential markets that you might enter
  - Decide how to segment your markets
  - Forecast your sales in various markets.
-

# Consumer Decision-Making Process

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**Understanding how the consumer makes decisions**

In order to evaluate your potential market, you should understand the process that consumers go through when they purchase products. The stages of the decision-making process that the consumer experiences when making a purchase are:

Stage	Description
I	Recognize an unsatisfied need.  <u>Example:</u> The family needs a new car.
II	Identify the alternate ways of achieving satisfaction.  <u>Example:</u> I could buy a sports car, economy car, or mini-van.
III	Evaluate the alternatives.  <u>Example:</u> The sports car is small; the economy car gets good gas mileage; and the van has plenty of room and gets decent mileage.
IV	Make a purchasing decision.  <u>Example:</u> I'll buy the mini-van.
V	Conduct the post-purchase analysis.  <u>Example:</u> Did I make the right decision? Yes, the kids have plenty of room and the cost of driving is reasonable.

---

**Stage I – Need recognition**

**Recognize an unsatisfied need.**

The process starts when an unsatisfied need creates inner tension, or motive. It may be:

- a physical need aroused internally (hunger)
  - dormant until aroused by an external stimulus (sight of the product)
  - recognized by dissatisfaction with the present product.
- 

*Continued on next page*

## Consumer Decision-Making Process, Continued

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### Stage II – Alternatives

#### **Identify the alternate ways of achieving satisfaction.**

Once consumers recognize the need, they become aware of the competing or even conflicting uses for their limited resources of time and money. There are multiple ways to satisfy the need.

---

### Stage III - Evaluation

#### **Evaluate the alternatives.**

Consumers identify both available products and the brands offered in the marketplace, and they determine the pluses and minuses of each. This evaluation is influenced by:

- time and money required
  - information based on past experience and other sources
  - perceived risk if the wrong selection is made.
- 

### Stage IV - Decision

#### **Make a purchasing decision.**

Once the alternatives have been evaluated, the consumer decides which product to buy based on:

- past experience
  - attitudes about the different brands
  - opinions of family and friends.
- 

### Stage V - Analysis

#### **Conduct the post-purchase analysis.**

After the decision has been made, it's natural for the consumer to have some post-purchase anxiety, often referred to as *cognitive dissonance*. These facts apply to the state of cognitive dissonance:

- This anxiety arises because each alternative considered by the buyer has both advantages and disadvantages. The positive aspects of the choices rejected and the negative aspects of the product bought create some degree of disharmony within the person.
  - This uncomfortable feeling strengthens as the:
    - dollar value of the purchase increases
    - relative attractiveness of the unselected alternatives increases
    - relative importance of the decision increases.
- 

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## Consumer Decision-Making Process, Continued

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### Stage V – Analysis (continued)

These facts apply to the state of cognitive dissonance:

- Restore internal harmony and minimize discomfort by spending more time and effort in pre-decision evaluation (shop around for the best buy).
- After making a choice, avoid the ads for the rejected product.

Example: It's more stressful to buy a car than a tennis racquet, and you spend much more time shopping for a car to get the best deal. It's less stressful to buy a sweater than to buy a house.

- The buyer's feelings are significant to you because they impact repeat sales and what the customer tells others about the buying experience.
  - You can reassure consumers that if they choose your product, they'll be satisfied with the purchase. Design your advertising and selling techniques to emphasize the positive features of your product.
  - For expensive and infrequent purchases, your post-sale service program can be a significant factor in increasing customer satisfaction and loyalty.
- 

### Withdrawal from the process

At any stage of the decision-making process, the consumer can choose to stop before making the purchase or simply skip a stage.

**Total-stage approach** – The consumer takes the total-stage approach when making a first-time purchase or making an expensive, infrequent purchase.

**Routine purchases** – If the purchase is routine, the consumer satisfies his or her need in the usual manner by repurchasing a familiar product or brand.

**Change in routine** – If some element of the purchasing routine changes appreciably, the buyer may reopen the full decision-making process and consider alternative products or brands.

---

### Factors in the final decision

After evaluating the alternatives, the customer decides whether to buy. If he or she chooses to make a purchase, the factors that come into play include:

- store
  - brand
  - quality
  - price
  - color
  - appearance.
- 

*Continued on next page*

## Consumer Decision-Making Process, Continued

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### Factors in the final decision (continued)

**Your role** – Anything you can do to simplify the consumer’s decision-making process is to your own advantage. Sometimes you can even combine several decisions and market them as one packaged product.

Example: The travel agent simplifies travel-related decisions by offering package deals that include flight, hotel, car rental, tours, etc.

Rationale: People generally find it difficult to make decisions. If you make the choices easier, they’ll be more likely to select your product.

---

### Buying motives

There are two types of buying motives – patronage and product.

**Product buying motives** – These are the reasons that the customer buys a particular product.

**Patronage buying motives** – These are the reasons that a consumer shops at a certain store. Some of the more important patronage buying motives are:

- convenience of the business location
- speed of service
- ease of locating merchandise
- quality of product or service
- uncrowded conditions
- reasonable price
- wide variety
- services offered
- attractive business appearance
- caliber of personnel
- overall quality.

**Social class** – Patronage motives are related to social class. Studies have shown that people match their own values and expectations with the status of the store.

Examples: People who make over \$100,000 a year shop in the boutiques and specialty shops in the affluent parts of town. People who make significantly less money buy their goods at the discount stores where they feel comfortable spending their money.

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# Market Value Determinations

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**Introduction** Many new business owners ignore the information available and rush into producing goods or services that they want to sell rather than what the consumer wants to buy. To avoid this costly mistake, study the market carefully before going too far in planning the business.

---

**Customer traits** You have to identify enough of a customer base to justify offering your product. Your potential customers are characterized by having:

- the need for your product
  - the resources to buy what you're offering
  - the authority to make the purchase
  - accessibility to your business.
- 

**Market value formula** Once you've decided that a potential market does exist, estimate the value of that market (how much money consumers will spend to satisfy the identified need). The formula for determining the market value is:

$$\frac{(\text{Number of People}) \times (\text{Average Value of Available Money})}{\text{Percentage of Funds Devoted to the Identified Need}}$$

**Sources of data** – You can gather the needed data from a variety of sources including census results, business publications, university databases, chambers of commerce, professional associations, the Yellow Pages, local-area competition, etc.

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**Market value vs. your share** It's important to recognize the difference between the total value of a market and the amount that you can expect to receive from the sale of your goods or services.

**Your share** – While market value is the total amount expected to be spent by customers at all places of business in the marketplace, your share is the amount related to your area that you can bring in separate from the rest of the businesses.

**What to expect** – Be realistic about what your share of the total market value will be. Most new business owners moving into a competitive marketplace cannot secure a large percentage of the total market for several years.

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## Market Value Determinations, Continued

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### Case study

Wes North wants to open a specialty sporting goods store selling golf, tennis, exercise, racquetball, bowling, basketball, football, baseball, softball, and soccer equipment. He plans on opening a 2,000-square-foot store in a shopping mall in his hometown, where he was a football hero.

**Potential consumers** – The town of 30,000 is the county seat and the largest town in the county, and another 30,000 people live outside of town but are considered part of the town’s consumer base. Fifty miles away, there’s a major metropolitan area of 90,000 people.

**Past sales figures** – Sporting good sales the previous year were \$70 per capita, according to the National Sporting Goods Association.

**Major market** – The major market for this store is the 60,000 people living in or around the town. If local residents spend as much money on sporting goods as the national average, the total market in terms of dollar amount should be \$4,200,000. However, only 45 percent of this figure comes from the sale of general sporting goods. Therefore, only \$1,890,000 can be expected.

**Product offered** – Wes doesn’t plan on carrying all types of general sporting goods. Listed below are the types of goods he wants to sell, based on the local sports programs, and the percentage of sales that they represent:

Goods	Percentage of Sales	Goods	Percentage of Sales
Golf	7.9	Basketball	2.7
Tennis	9.8	Football	1.8
Exercise	15.2	Baseball and softball	2.8
Racquetball	1.2	Other	2.0
Bowling	1.8		
<b>Total percentage of sales from products offered by Wes: 45.2</b>			

**Market value** – The estimated total market value for these particular goods is approximately 45 percent of \$1,890,000, or \$850,000 per year.

**Identifying competitors** – Currently there are no specialty sporting goods stores in town. The stores selling sporting goods are K-Mart in the mall, four local discount stores, three hardware stores, JC Penney, and Sears.

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## Market Value Determinations, Continued

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### Case study (continued)

**Assessing buying behavior** – Wes evaluated the competition and discovered that approximately 50-70 percent of all sales in the area went to the existing local stores. The other 30-50 percent of sporting goods needs were met by specialty stores in the large metropolitan area located 50 miles away.

**Market share** – Based on the location of the new store, its size, variety of inventory, and convenience in terms of proximity to the people with the need, Wes estimates that he could capture between 10 and 20 percent of the market. So he could expect between \$85,000-\$170,000 per year. But realistically, Wes knows that it'll be at least three years before sales would reach 20 percent of the market.

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### Conclusion

If a new business moves into a market already served by four other similar shops, the existing businesses already share the total market value. If they share it equally, each company would receive 25 percent of the total value.

**Changing market share** – With the entry of the new firm into the marketplace, five businesses would have to share the market value so each would receive 20 percent. But it's not likely that the brand new company would capture that much of the market. To do so, all the other firms would have to give up 20 percent of their business.

Note: Existing businesses would work very hard to avoid losing that much ground to a new competitor.

**New business opportunity** – The new business owner would have a much better chance of succeeding if he or she attracts consumers not totally satisfied with existing goods or services. So the entrepreneur entering this marketplace should develop a marketing mix that satisfies those vulnerable customers.

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## Differences in Marketplaces

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### Regional differences

Regional differences do account for product and brand preferences. People are different in various parts of the country, and their buying habits prove it.

Examples: Cream of mushroom soup is the number-one seller in California. In the Northeast it's chicken noodle, and it's tomato in the Midwest. In the table below, you can see some major products and where they are most popular.

Product	#1 Market (per capita)
Antacid	Atlanta
Vitamins	Los Angeles
Shoe polish	Indianapolis
Ketchup	New Orleans
Iced tea	Biloxi
Tooth paste	New York
Hot dogs	Chicago
Lotion	Tucson

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### Reasons for preferences

Why do you think that people in Atlanta would need so much antacid whereas they enjoy their iced tea in Biloxi? It may seem random, but many companies find that besides regional influences, product and brand preference are impacted by the consumer's own traits such as:

- age
- ethnic background
- gender
- level of education.

Key point: To prosper in the coming years, the entrepreneur has to be sensitive to consumer demographics that shape preferences, set attitudes, and define values.

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## Target Market Identification

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### Defining your target market

When defining your target market, you can take either of two approaches – market aggregation or market segmentation. Deciding which approach to adopt is a key step in selecting your target market.

**Market aggregation** – Viewing the market as a single mass is market aggregation. In this approach, you select the entire unit as your target market.

**Market segmentation** – When you view the total market as being made up of many smaller, homogeneous segments, you take the market segmentation approach. This approach leads to selecting one or more of the segments as the target market.

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### Compatibility

Select a target market compatible with your organization’s goals and image.

Example: If you market high-priced personal computers, don’t sell them through discount chain stores in an effort to reach a mass market. Place them in electronic boutiques with the type of image that you’re projecting with your product. If your company produces all-natural and organic foods, you must market it to whole food markets with those types of consumers.

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### Company resources

Match the marketing opportunity with your company’s resources.

Example: A company with limited resources decided to enter the market with an inexpensive, unbranded baby diaper. They decided not to spend a lot on advertising to compete with established national brands. They offered a non-advertised, generic baby diaper through supermarkets at a discounted price and succeeded by matching the company’s limited resources with its intended market.

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### Profitable markets

Continuously seek markets that will generate sufficient sales volume at a low enough cost to result in a profit.

Note: Over the long run, you must generate a profit so that you can continue to do business. But through the years, companies often overlook the profit factor in their quest for high volume sales. Remember the bottom line: sufficient profit for business growth.

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## Target Market Identification, Continued

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### Competition

Choose a market where the number of competitors and their size are minimal. Don't enter a market already saturated with competition unless you have some overriding competitive advantage that will enable you to take customers away from existing firms.

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### Changing markets

All markets change, and the consumer market is especially vulnerable to change. Some of the factors that lead to change in the marketplace are:

- population changes (shifts in age or mobility)
- size and distribution of income (especially disposable income)
- altered lifestyle and attitudes
- more women in the workplace
- more older workers
- more leisure time
- more credit purchasers
- increase in the service industry
- higher overall education level.

Key point: Pay close attention to this type of data. You'll need to continuously review and adapt your marketing plan to address any changes.

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# Types of Marketing Research

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## Introduction

The entrepreneur conducts marketing research in order to objectively and completely gather and analyze data pertaining to prevailing marketing issues. The two types of market research are quantitative and qualitative.

**Increased use** – Market research has only been in use for 10 to 15 years. But businesses rely on this technique more and more each year to analyze product information and gain a competitive edge.

**Reduction of uncertainty** – By using market research, you can reduce the uncertainty that comes with any venture into the marketplace, thereby giving your business a better chance to succeed.

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## Rationale

Marketing research is important to you because when your business needs to answer questions about the market mix or target market, you need the proper data to resolve these issues in a manner that increases your business.

Key point: Marketing research gives you the information to make decisions based on your business objectives and what the consumer demands of you.

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## When to do research

Marketing research tends to be done on a project-to-project basis, each with a specific starting and end date.

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## How to conduct research

Many companies have failed because they have not properly carried out marketing research. The following table describes how to effectively conduct market research:

Step	Action
1	Define the problem with your product.
2	Develop a theory of the cause of the problem.
3	Collect data related to the issue.
4	Interpret the findings of your study.
5	Act on the results of your market research.

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## Types of Marketing Research, Continued

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### Quantitative research

Quantitative research is the method of gathering data through customer surveys, including people interested in products like the ones you offer. There are two types of quantitative research – customer-based and market-wide.

**Customer-based research** – This is a narrow research approach, where the results provide you with information about your own customers.

**Market-wide research** – This type of research provides information about the overall purchaser base of people who might or do use the product you're interested in investigating.

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### Qualitative research

Qualitative research typically involves interviewing small groups of consumers and asking them to tell you why they like or dislike a particular product. It is also used to identify the strengths and weaknesses of your competition.

Example: The interviewer would ask open-ended questions such as, “Why do you use this product instead of that one?” and “What would make you buy this product instead of the other ones on the market?”

**Benefits of qualitative research** – The results of the qualitative approach add depth and richness to market research results. It goes beyond the number of people who dislike the product and finds out why they dislike it.

Example: Quantitative research uncovers that you have a 10 percent drop in sales because of new competition in the product line. After conducting small group interviews, you determine that consumers prefer the new product's packaging to yours.

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## Types of Marketing Research, Continued

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### Qualitative research (continued)

**Primary research** – Primary research is actually doing the research yourself as opposed to assigning the responsibility to a third party. You can employ a variety of methods including:

- review of past sales records
- interviewing
  - personal interviews for face-to-face discussion
  - telephone interviews
- mail questionnaire (low level of response)
- observation.

Example: To see how well your new cereal is doing in the supermarket, you go to the store and watch people as they pick up your product or as they choose the other brand. You actually see the cereal box being moved from shelf to shopping cart to being bagged in the supermarket.

**Secondary research** – Secondary research involves an outside entity in the study. These external sources include your local library and firms who provide research and evaluation services.

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# Evaluating Marketing Strategies

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**Introduction** After researching your target market to develop the right marketing mix, you are ready to determine a marketing strategy that will determine the direction your business will take.

Key point: The more time you spend creating your marketing strategy, the more likely your business is to achieve success.

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**Rationale** Marketing influences these key areas of your business:

- consumer behavior
  - marketing manager role and responsibilities
  - new business opportunity
  - marketing decisions about the marketing mix.
- 

**Effectiveness and efficiency** Every marketing strategy is evaluated on two criteria – effectiveness and efficiency. The best approach combines these two standards in a way that enhances your bottom line.

**Effectiveness** – This criterion refers to how well the strategy achieves your business goals and satisfies customers.

**Efficiency** – The overall cost of the strategy determines whether it is an efficient one.

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**Evaluation data** The four types of data required to evaluate your marketing activities are:

Type of Data	Source
Sales	Company records
Costs	Company records
Worker performance	Observation, customer feedback, etc.
Customer attitudes	Surveys, interviews, etc.

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**Stages of analysis** Market analysis consists of two distinct stages – identifying the anticipated sales level and implementing your marketing strategy.

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*Continued on next page*

## Evaluating Marketing Strategies, Continued

### Stage I – Sales level

The table below describes how to identify the anticipated sales level:

Step	Action												
1	Define the size of your market by identifying: <ul style="list-style-type: none"> <li>• who your customer will be</li> <li>• how many potential customers are in the geographic area that your business will service</li> <li>• how much money these potential customers currently spend on your type of product or service.</li> </ul>												
2	Assess the competition by estimating the competition's current share of the market as follows: <table border="1" data-bbox="565 831 1386 1667" style="margin-left: 20px;"> <thead> <tr> <th data-bbox="565 831 727 873">Substep</th> <th data-bbox="727 831 1386 873">Action</th> </tr> </thead> <tbody> <tr> <td data-bbox="565 873 727 947">2a</td> <td data-bbox="727 873 1386 947">List the businesses that offer your type of product.</td> </tr> <tr> <td data-bbox="565 947 727 1251">2b</td> <td data-bbox="727 947 1386 1251">           Evaluate each one by identifying its strengths and weaknesses in areas such as:           <ul style="list-style-type: none"> <li>• location</li> <li>• price</li> <li>• delivery</li> <li>• variety</li> <li>• quality.</li> </ul> </td> </tr> <tr> <td data-bbox="565 1251 727 1367">2c</td> <td data-bbox="727 1251 1386 1367">Determine whether your product has a marketing niche because of its ecological edge over similar products.</td> </tr> <tr> <td data-bbox="565 1367 727 1587">2d</td> <td data-bbox="727 1367 1386 1587">           Approximate the competition's current sales volume in areas such as:           <ul style="list-style-type: none"> <li>• size of inventory</li> <li>• number of employees</li> <li>• store square footage.</li> </ul> </td> </tr> <tr> <td data-bbox="565 1587 727 1667">2e</td> <td data-bbox="727 1587 1386 1667">Decide whether the market size is large enough for competing businesses.</td> </tr> </tbody> </table>	Substep	Action	2a	List the businesses that offer your type of product.	2b	Evaluate each one by identifying its strengths and weaknesses in areas such as: <ul style="list-style-type: none"> <li>• location</li> <li>• price</li> <li>• delivery</li> <li>• variety</li> <li>• quality.</li> </ul>	2c	Determine whether your product has a marketing niche because of its ecological edge over similar products.	2d	Approximate the competition's current sales volume in areas such as: <ul style="list-style-type: none"> <li>• size of inventory</li> <li>• number of employees</li> <li>• store square footage.</li> </ul>	2e	Decide whether the market size is large enough for competing businesses.
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2e	Decide whether the market size is large enough for competing businesses.												

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# Evaluating Marketing Strategies, Continued

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**Stage I – Sales level (continued)**

The table below describes how to identify the anticipated sales level:

<b>Step</b>	<b>Action</b>
3	Compare and contrast your own strengths and weaknesses with the competition’s using the criteria in the above step.
4	Estimate the level of sales that you can anticipate for your own business based on the estimated size of the market and evaluation of the competition.  <u>Note:</u> Consider factors such as location, price, delivery, service, variety, quality, store size, type of equipment, etc.

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*Continued on next page*

## Evaluating Marketing Strategies, Continued

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### Stage II – Marketing strategy

The table below describes how to implement your marketing strategy:

Step	Action
1	Define your target market according to: <ul style="list-style-type: none"> <li>• descriptive characteristics (such as age, income, occupation, location, etc.)</li> <li>• major buying motives (rational vs. emotional)</li> <li>• differences and similarities to the competition’s customers</li> <li>• consumer group on which your own business will focus.</li> </ul>
2	Describe the goods classifications and life cycle stages appropriate for your product.
3	List the specifics of the marketing mix elements below needed to satisfy customers and improve upon what your competitors offer: <ul style="list-style-type: none"> <li>• product (idea)</li> <li>• promotion</li> <li>• price</li> <li>• place.</li> </ul>
4	Identify the factors that might interfere with the successful implementation of the proposed market mix such as: <ul style="list-style-type: none"> <li>• economy</li> <li>• laws and regulations</li> <li>• costs (legal, accounting, resources, and other expenses)</li> <li>• competition</li> <li>• technology</li> <li>• social issues.</li> </ul>
5	Describe the evidence that you’ll need in order to determine the success of your marketing strategy and how to collect it including: <ul style="list-style-type: none"> <li>• profits</li> <li>• sales</li> <li>• costs</li> <li>• performance</li> <li>• customer satisfaction.</li> </ul>

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## Stage IV – Design a Strategic Marketing Mix

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### **Introduction**

After identifying your target market, develop a marketing mix that enables your business to satisfy the wants and needs of your target market and achieve your marketing goals.

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### **Four Ps**

Marketing mix refers to the four components of the marketing system and how they work together to form the core of your marketing plan. The four Ps are:

- product
  - promotion
  - price
  - place.
- 

### **Consumer-driven markets**

Many new entrepreneurs develop their business around a product that they want to sell. Once the business is open, they find that few people actually want the product or already buy similar products with which they're satisfied. At this late stage, the new entrepreneur cannot recover from poor planning.

Key point: Develop your business based on a product that appeals to the consumers in your target market and promote it with a competitive price. Customers drive the market and determine your level of success.

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# Product

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## Goods vs. services

The product is classified in the marketplace as either a good or service.

**Goods** – Goods are tangible objects offered to the consumer such as:

- package items
- retail items
- items sold from business to business.

Examples: toothpaste, popcorn, cola, laundry detergent, cars

**Services** – The product can also be a service that satisfies a consumer need. Marketing for services can be lucrative but may raise challenges including:

- Services cannot be stored
- Services cannot be inventoried
- Patents do not protect services
- You cannot easily display services
- Prices are more difficult to set for services
- Consumer involvement is limited
- It's difficult to control standardization and quality for services.

Examples: store clerk, movie theater attendant, dry cleaner, mechanic, waitress

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## Quantitative vs. qualitative

Consider both quantitative and qualitative factors when developing your product.

**Quantitative** – These factors help you calculate numerically specific sales objectives. They are calculated first in order to develop hard numbers based on objective input.

**Qualitative** – These factors are more subjective because of the difficulty quantifying certain types of vital information or data that may be unavailable. Interpretation of subjective factors leads to an adjustment of quantitatively based sales objectives.

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## Product, Continued

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### Quantitative factors

**Sales and share trends** – In defining sales objectives, a good place to start is the past. Examine any trends in the marketplace and for companies similar to yours. These patterns are major indicators when projecting future sales.

**Market sales** – Consider these components of market sales:

- *Trends* – Review trends over the past five years in terms of dollar and unit sales to determine whether the market fluctuated upward or downward or remained flat.

Example: You track total market shoe sales and find dress shoes to be slowly moving upward while athletic shoes were trending upward at a rate more than twice the total market. If you decide to sell athletic shoes in your store, you should take this trend into consideration when setting sales objectives.

Example: You notice jeans sales have increased and that dirty and holey jeans have flooded the market. Consider this trend before you fill your racks.

- *Fads* – If your business benefits from fads causing erratic sales volume, you would be wise to recognize that condition and deal with it realistically when setting your sales objectives. Fad volume can be occasional (as in Example A) or sustained (as in Example B).

Example A: The local arena is hosting a statewide high school basketball tournament, and your store experiences a huge spike in athletic shoe sales. You can attribute the upward spiral directly to the extra traffic through your store because of the high school fans.

Example B: A highly publicized health study finds that the use of aspirin reduces the risk of heart attack. Your pharmacy department has to estimate the impact of this news in order to keep enough of the product on hand – how many customers will be affected and for how long will they continue to buy the aspirin?

**Company vs. total market sales** – Compare how your company sales are projected from year to year compared to total market sales. In most cases, you should project your sales to equal or surpass the market rate of growth. If you don't, you will lose a share of the market.

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## Product, Continued

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### Quantitative factors (continued)

**Market share trends** – Another factor to consider is the change in your market share – for the company, product line and each specific product, or for the retail/service category and each major department. The points to consider include:

- the rate at which your share will change in relation to the market
- the likelihood that your share will grow in a growing market
- the potential for your share to continue growing in a shrinking market
- the possibility that your share will decrease when the market declines.

Example: If you find that your product is losing share in a declining market, it would be unrealistic to project sales increases unless your strategy is to reverse this trend with a major marketing commitment.

Note: When setting sales objectives, keep in mind that not only is it difficult to reverse a product's sales decline in a one-year period, it's extremely difficult to reverse a product's decline within a declining market.

**Size and trend of your target market** – Making estimates to use when setting realistic sales objectives also depends on an accurate appraisal of the size and projected growth of the market for your product. Follow these guidelines when assessing the market for size and trend:

- Avoid bad decisions by carefully examining census and industry data, as well as available primary research, during your business review.
- Analyze the data collected in order to determine how big the market really is for your product and how it might change.
- Be aware that many new businesses fail because of an overly optimistic estimate of the size of the market.

Example: A two-year-old retail chain that sells low priced men's suits experiences poor sales. After reviewing census data, it's obvious that there's a small market for the product category since only 25 percent of men bought a suit each year. And the market category for suits is also declining while casual men's wear is growing. Management could've predicted the erosion of the target market and set different company goals.

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## Product, Continued

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### Quantitative factors (continued)

**Budget, profit, and pricing considerations** – When setting realistic sales objectives, consider your operating budget and profit expectations. The points to consider include:

- Since the goal is for sales to cover expenses and result in profits, you need a minimum level of dollar sales to stay in business and grow. For this reason, the cost of doing business is an important quantitative factor when setting your sales objectives.
  - When setting sales objectives, also keep in mind the level of profitability within segments of your product line or retail/service offering.
  - Factor product price increases or decreases into sales objectives because they dramatically affect sales volume and profitability.
- 

### Qualitative factors

**Economic considerations** – One factor affecting sales objectives is difficult to forecast – the economy. Follow these guidelines when considering economic factors:

- Adjust your sales objectives based on your estimate of the economic factors that will directly affect your business
- Determine whether you're forecasting sales for a recession, inflationary period, or stable period
- If you're projecting sales for an inflationary period, estimate dollar sales to increase at a greater percentage than unit sales
- As interest rates rise, expect sales to slump if your business relies heavily on customers making purchases on credit (such as cars and houses)
- Plan for any upcoming changes in tax laws
- Review not only national economic conditions but also conditions that might impact your product market on a more local basis (like unemployment levels).

Key point: Although you cannot control economic factors, you can thoroughly evaluate the affect that they might have on your business, and then you can adjust your objectives for the short and long term.

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## Product, Continued

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### Qualitative factors (continued)

**Competition** – Strong and growing competitors can seriously dilute the large and growing market that you’ve identified. Consider whether a major competitor has taken any of the following actions to increase sales:

- expansion of its sales force
- increase in the number of trade deals to retailers
- addition of distribution channels or store locations
- change in its product mix
- introduction of a new product or service
- increase in its level of spending on advertising.

Note: It can be difficult to determine the direct impact on sales when you increase competitive advertising. At this point, telephone survey research of your potential market can quantify its impact on sales. Through this research method, you can gather the data to make short-term revisions if appropriate.

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## Product, Continued

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### Qualitative factors (continued)

### Competition (continued)

The table below describes the five distinct stages of gaining a competitive edge through advertising your product in a crowded marketplace:

Stage	Description
I	<i>Awareness</i> – Consumers become aware that the product exists, but they have little information about it and aren't concerned about getting more.
II	<i>Interest</i> – The potential customer is self-motivated to get more information about: <ul style="list-style-type: none"><li>• its purpose</li><li>• product features</li><li>• advantages vs. disadvantages</li><li>• price</li><li>• location.</li></ul>
III	<i>Evaluation</i> – The consumer decides whether the product will satisfy the criteria to meet a personal need.
IV	<i>Trial</i> – The customer uses or experiences the product for the first time.  <u>Note:</u> The trial is often carried out when the new customer buys a small amount, takes advantage of a free sample or demonstration, or borrows the product from someone he or she knows.
V	<i>Adoption</i> – The consumer chooses this specific product when the need arises for a product of the general type.  <u>Note:</u> Whether consumers continue using the item depends on their reaction to it and the way that the business owner competes with similar goods or services to maintain customer loyalty.

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## Product, Continued

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### Qualitative factors (continued)

**Product life cycle** – Assess where your product is in terms of its life cycle. Set both short- and long-term sales objectives relative to where your product is in its life cycle as follows:

Type of Objective	Focus
Short-term	Its current point in the product life cycle.
Long-term	The life cycle stage toward which your product is moving.

**Mission and personality of your business** – As an entrepreneur, your future success is closely tied to the mission and personality of your business. The points to consider include:

- the reason you started the company
- your expectations for performance and results
- your business philosophy
- whether you're careful or a risk taker
- whether you're aggressive in terms of growth and innovation (product improvements, new products, new distribution channels and markets, etc.) or more conservative.

**Marketing plan expectation** – Your expectation for the overall marketing effort is an important qualitative factor. You can usually generate incremental sales with a new marketing plan that's well integrated and disciplined.

Note: If you change your approach to marketing, be sure to adjust your sales objectives upward.

Examples: Ways to change your marketing plan include investing media or promotional funds and lowering the price of your product.

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*Continued on next page*

## Product, Continued

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**Factors in your market plan** The table below summarizes the factors to consider when defining market plan expectation.

<b>Factor</b>	<b>Details</b>
Marketing	<ul style="list-style-type: none"> <li>• Annual unit sales (macro timeframe unit sales goal)</li> <li>• Appropriate short-term timetable (micro timeframe) such as weekly, monthly, or quarterly</li> <li>• Projected unit sales period</li> <li>• Typical consumer product purchase rate per period</li> <li>• Target market size</li> <li>• Percentage of the target market needed to purchase at a typical rate per period in order to achieve unit sales goals</li> </ul>
Advertising	<ul style="list-style-type: none"> <li>• Examination of the target market (awareness, recall, recognition)</li> <li>• Decision about the dollar amount to use in target market determination</li> <li>• Projected advertising levels needed per period (usually three- to six-month intervals) to support projected target purchase rates</li> <li>• Advertising carryover effects</li> <li>• Percentage of the target budget spent at each advertising level per period required to support unit sales goals</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Message values (such as recall and recognition)</li> <li>• Effective message frequency required to achieve each advertising level against the target per period (print, radio, or television)</li> <li>• Effective reach, defined as the required percentage of the target market exposed to messages at the effective frequency</li> <li>• Effective reach required to accomplish each communication level per period</li> </ul>
Advertising budget	Amount of money required per period to sustain and effectively reach goals and objectives

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# Promotion

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**Introduction** Promotion is the means by which you can most effectively communicate the availability and benefits of your product to consumers. Deciding the best way to communicate with potential buyers involves careful analysis of the product, price, and place components of the marketing mix.

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**Rationale** Consumers must be informed about a product and motivated to buy it. Promotion increases a product's growth in the marketplace by enticing potential customer to choose it instead of the alternatives, resulting in either increased short-term sales and/or ongoing association with the product.

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**Methods of Communication** The major communication methods for promoting your product are:

- advertising
- personal selling
- sales promotion.

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**Advertising** The goals of advertising are to attract new customers and keep the old ones. In order to do so, advertisements must follow the AIDA formula:

- A** = Attention The advertisement has to get the desired audience's attention.
  - I** = Interest Once you have their attention, you must to hold their interest.
  - D** = Desire When the consumer is interested, you have to create a desire for them to buy your product.
  - A** = Action After potential buyers want your product, you must motive them to act.
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## Promotion, Continued

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### Advertising (continued)

**Limitations** – Although advertising is an effective tool for communicating with consumers, it isn't a cure-all. Advertising cannot:

- make a business succeed if the company offers an inferior product
- create customers overnight
- lead to sales if potential customers are ignored or mistreated
- build consumer confidence if it's untruthful or misleading.

**Ad agencies** – If you determine that an ad agency would do a better job at promoting your product than you could select an ad agency that is experienced with businesses similar to your own.

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### Combining methods

Determining the right combination of advertising, personal selling, and sales promotion is one of the fundamental tasks of the marketing manager. Choose to implement marketing plans that complement each other and strengthen your message.

Example: If you are sending a salesperson to make a presentation, advertise your product in a way that makes consumers more receptive to the sales presentation. Use slogans that the salesperson will repeat or an image that he or she will project in your advertising.

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# Price

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## Introduction

Price is the monetary value of a product. In order to determine this value, you'll need to conduct many pricing surveys and analyses.

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## Outside firms

In order to set the right price, you might have to hire an outside firm to conduct studies of the target market. They have the tools with which to determine the amount of money customers are willing to pay for your product.

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## Average markup

The amount you add to the cost of the product necessary to realize a profit is the markup. Your goal is to balance high-markup and low-markup items to achieve an average markup that produces a desirable profit. This gross profit margin must cover all business expenses and provide for a net profit.

Example: Your business needs a gross profit margin of 35 percent to operate. Since you assign prices with higher and lower profit margins in order to be competitive in the marketplace, the average amount that you mark up all goods sold must exceed 35 percent just to stay in business.

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## Consequences of poor pricing

Correct pricing is an essential part of your marketing plan. Improper pricing results in the following consequences:

<b>If</b> your product is priced too...	<b>Then</b> your business will struggle because...
high	the consumer won't buy the product at the exorbitant price.
low	your profits will suffer.

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# Place

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## Definition

*Place*, or distribution, is the passing of a product from the producer or seller to the consumer.

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## Rationale

Selecting distribution channels is one of the most important decisions you will make because it directly affects how rapidly your product will be in the hands of the public.

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## Choosing a channel of distribution

When determining the best channel of distribution for your product, consider these factors:

- nature of the product
- size and location of the market
- availability of suitable channel members
- your ability to manage the marketing activities.

**Changes in the marketplace** – If market conditions or buyer attitudes change, check your distribution channels to make sure that they are getting your product to prospective buyers on time and in good shape.

**Changes with channel members** – In the event that one part of the distribution system changes, adjust your plan to adapt to the different conditions and maintain your current sales level.

**Evaluation** – Because so many changes do occur in distribution channels, evaluate each step of your existing procedures on a regular basis.

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## Place, Continued

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### **Modes of transportation**

To select the proper distribution channel, you have to be knowledgeable about the various modes of transportation available. Increasing transportation costs and differences in level of service are key components in this decision. There are several types of carriers from which to choose. Select the type that best suits your business needs.

Note: Sometimes, you might find it most efficient to use two types of transportation.

**Common carriers (trucks)** – Anybody can hire these trucks. Common carriers operate under the regulation of the Interstate Commerce Commission. They haul about a third of all motor freight. Common carriers are required to charge certain rates and most operate over specific established routes.

**Contract carriers** – These trucks enter into special agreements with individual shippers and are not as restricted as common carriers. These drivers agree to move specified shipments and can establish their own rates.

**Private carriers** – Private carriers are company-owned trucks that haul goods for their own company.

**Airfreight** – This mode of transportation is the quickest way to send your product a long distance.

**Railroads** – Trains have provided a vital link in many channels of distribution for a very long time. Railroads are very reliable and efficient. Trains offer the following ways to transport goods:

- Piggyback cars are flat cars on which truck trailers can be loaded.
  - Containers are often carried long distances by rail and then transferred to trucks for local delivery.
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# Developing the Right Mix

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## Consumer market buying patterns

If you can identify the behavior related to when and how consumers choose to buy specific products, you can develop the best mix for that customer base. Try different combinations of product, price, place, and promotion until the formula attracts consumers.

**Motivation for buying certain products** – Consumers direct their buying behavior as follows:

- They first try to satisfy their most basic of needs such as food, drink, and sleep. This type of purchase relies on the rational thought process for direction.
- After making purchases based on basic survival, consumers buy things to fulfill many other types of needs and wants. At this point, the thought process is both rational and emotional.
- With basic needs met and a little beyond that standard, consumers buy products to satisfy emotional needs. They will look for quality and value, but factors like pride and individualism play a role as well.

Note: Buyers are often reluctant to admit that they've made an emotional purchase and will attempt to rationalize the behavior.

**Two categories of consumer buying behavior** – As stated above, the reasons that people buy certain products are both emotional and rational. The table below lists the two types of motivation and examples of each.

<b>Emotional</b>	<b>Rationale</b>
<ul style="list-style-type: none"><li>• Pride in personal appearance</li><li>• Social achievement</li><li>• Ambition</li><li>• Cleanliness</li><li>• Pleasure</li><li>• Increased leisure time</li></ul>	<ul style="list-style-type: none"><li>• Durability</li><li>• Economy in use</li><li>• Economy in purchase</li><li>• Handiness</li><li>• Efficiency in operation</li><li>• Dependability in use</li></ul>

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## Developing the Right Mix, Continued

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### **Industrial market buying patterns**

Industrial users tend to be more rational in their buying behavior than consumers who buy for personal use. They make purchases to satisfy business needs.

Note: These organizations are still made up of individuals who can be emotional. So even industrial purchases may be based on emotion at times.

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### **Planning tools**

The two planning tools for developing the right mix are goods classification and life cycle analysis.

**Goods classification** – This term describes the ways in which consumers shop for similar products. You should understand this pattern to market your products in a way that satisfies customer need.

**Life cycle analysis** – Life cycle analysis is a method of describing the type of competition faced by businesses for their products.

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# Goods Classification

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## Introduction

It's very difficult to change buyer behavior. But you can develop an awareness of that behavior and develop your products to match it by making these decisions:

- What is the relative value of the product to consumers?
  - Which differences do customers perceive between the available brands?
  - How willing are consumers to shop for the product?
- 

## Purpose

Goods classification analysis helps you determine:

- whether customers are more interested in location, price, product features, or accompanying services
  - whether they are likely to switch brands
  - which information shoppers need before purchasing your product
  - which promotional approach is most likely to be effective.
- 

## Four categories

The goods classification system consists of four categories of products based on the preceding decisions. These groupings are:

- convenience goods
  - shopping goods
  - specialty goods
  - unsought goods.
- 

## Convenience goods

Consumers view convenience goods as having relatively low value and little difference between brands. Convenience goods are characterized as follows:

- Consumers don't spend a lot of time and effort shopping for such products and buy them at a convenient time and location.
- If their favorite brand isn't available, customers often buy another brand.
- Factors such as advertising, how they're displayed, and slight price reductions influence customers when buying convenience goods.

Examples: food items, personal care products, household supplies

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## Goods Classification, Continued

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**Shopping goods** Consumers consider some products as more important purchases with greater value and large differences in product features and price among brands. These products – shopping goods – are characterized as follows:

- Consumers spend more time shopping and comparing several brands before making a decision.
- For these products, consumers need more information about the features and price.
- Consumers may also be concerned about services and guarantees.

Examples: appliances, tools, clothing, furniture

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**Specialty goods** Consumers regard a few of their purchases as very important. For these specialty goods, they want to buy the brand considered to be the very best. Customers judge that brand as superior to all others, and they shop until they can buy that particular brand. Specialty goods are characterized as follows:

- The brand of choice evokes very strong customer loyalty
- Although specialty goods are often higher-priced products, any item can be considered a specialty good to certain customers (even chewing gum or tennis shoes)
- Consumers require very little information to make the purchase
- It's very easy to sell this specialty brand. Conversely, it's almost impossible to sell a competing brand to the customer
- Besides expensive products, specialty goods often have a high degree of emotional appeal to the consumer.

Examples: cars, cameras, electronics, perfume, cosmetics, designer clothing

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## Goods Classification, Continued

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**Unsought goods** There are products that consumers don't shop for at all. This situation occurs because they aren't aware that the product exists or because they have no need for the product. These products, or unsought goods, are characterized as follows:

- Because any new product is an unsought good until consumers know it's available, promotion is of the utmost importance for new products, brands, and businesses.
- Some unsought goods aren't bought because customers feel no strong need for them. These products and services may remain unsought until the need arises or the consumer faces an emergency.

Examples: life insurance, doctors, attorneys

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**Environmentally friendly businesses**

*Eco-entrepreneurship* and *green marketing* are terms created in the 1990s. This trend of developing products friendly to the environment is a welcome challenge to some business owners as a strategy for increasing future sales.

**Opportunities** – Entrepreneurs are taking advantage of the opportunities created by ecological hazards such as:

- air and water pollution
- rising temperatures
- deforestation
- soil erosion.

**Driving force** – The market process is driven by the consumer. By educating consumers on the environmental issues that face the world community, saving the earth while making a profit is possible.

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## Goods Classification, Continued

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### Assessing businesses

This type of assessment also applies to the business entity as well as individual products.

**Convenience** – Consumers choose some businesses because of their convenience – location, parking, type of service, or other factors.

**Shopping around** – For other businesses, customers shop around to compare variety, services offered, price, and location to find the best relative value.

**Specialization** – Certain consumers consider some businesses as specialty businesses. They only shop at these places because they think these businesses are superior to the others.

**Unsought businesses** – Some businesses are unsought because customers don't know or believe that the firm can satisfy their needs.

Key point: Operate your business in a way that meets consumer needs and expectations in the target market.

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# Life Cycle Analysis

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## **Introduction**

A major factor in competitively marketing your goods or services is basing your advertising strategy on where the product is in its life cycle. Use this information when setting sales objectives, both short- and long-term.

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## **Goals and objectives**

To be most accurate and realistic, base your sales goals and objectives on the product's life cycle position as follows:

- The product's current point in its life cycle determines your short-term objectives.
  - The life cycle level toward which your product is headed serves as the basis for your long-term goals.
- 

## **Questions to ask yourself**

Ask yourself these questions when analyzing your product's life cycle as part of developing a competitive advertising program:

- Do I have a new product just being introduced to a large pool of untapped target market, minimal competition, and substantial growth potential?
  - If the product has already been introduced to consumers, can I expect sales to grow, plateau, or even decline?
  - How does the product's point in its life cycle affect the way I plan the advertising strategy?
- 

## **Evaluation**

Sometimes it's wise to stand back and get a clearer picture of your product in comparison to the competition. Take these steps to focus on your product's life cycle and plan accordingly:

- Review the competition.
  - Compare your product to similar products in both other industries as well as your own.
  - Consider the success of other products.
  - Evaluate the landscape to determine whether your product is in a growth, leveling-off, or declining stage.
-

## Stage V – Prepare an Annual Marketing Plan

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**Introduction** Because of the variety and number of marketing activities that you need to carry out, carefully plan and coordinate every move. Develop your marketing plan to help you determine the:

- important marketing tasks
  - personnel roles and responsibilities
  - timeframe for completion of each
  - standards of performance
  - mechanism for ongoing evaluation and revision.
- 

**Timeframe** Usually the market plan looks from six to eighteen months ahead.

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**Parts of the plan** Your marketing plan should include these equally important parts:

- market analysis
  - market demands
  - marketing strategy
  - written details of the plan.
- 

**Market analysis** When conducting the market analysis, you will benefit by answering the following questions:

- What are the industry characteristics and trends?
  - Who are my target market customers?
  - What is the current and potential size of my market?
  - Who are my competitors?
  - What are my projected sales and market shares?
  - How will I continually evaluate the market?
- 

**Market demands** You will benefit from identifying the demands of your market.

- Who is the competition?
  - How does your product or service compare to the competition?
  - What does the public demand from this type of product or service?
- 

*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing strategy

When devising your marketing strategy, you will benefit by answering the following questions:

- How will I advertise and promote my product?
  - What is my pricing strategy?
  - What is my sales strategy?
  - How will I distribute my product?
  - Which product support will I offer (warranty, product service, customer training)?
- 

### Written details of the plan

The last phase of developing your marketing plan is to write down the details. A well written marketing plan has these characteristics:

- This document identifies marketing activities and responsibilities for a specific period of time, usually one year.
  - Whether long or short, it should include enough information to give your marketing effort both substance and flexibility.
  - Write a thorough marketing plan that states intended outcomes and provides the means for assessing the results of each task.
  - Provide a flow chart of your business's total schedule of activities and how each one interrelates.
  - Make sure that you've addressed revising the plan to adapt to changes along the way.
- 

### Market description

Describe the target market to be served in great detail.

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### Marketing objectives

State the specific objectives for a particular period of time. Relate these goals to all relevant factors including:

- sales and profits
  - market share
  - customers
  - products.
- 

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## Stage V – Prepare an Annual Marketing Plan, Continued

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**Competition** Describe anything related to the competition including:

- who they are
  - their products
  - their strengths and weaknesses
  - customers serviced.
- 

**Environment** Explain any factors in the marketplace that could affect your success. Include conditions such as:

- the economy
  - state and federal laws and regulations
  - new products
  - population changes.
- 

**Marketing mix** Specify each detail of the four Ps – product, promotion, price, and place. Ensure that you describe:

- each activity in the marketing mix
  - timetables for completing these activities
  - who is responsible for each one.
- 

**Budget** Present the anticipated budget and explain how funds will be spent for the various marketing activities.

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### **Marketing plan template**

A marketing plan is designed to:

- direct company activities towards the satisfaction of customer needs
- determine what the customer wants
- develop a product or service to meet those needs
- get the product or service to the end user
- communicate with the customer – at a profit!

You can use the marketing plan template on the following pages in developing your own marketing plan.

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template

#### Introduction

<b>Who?</b>	Who is the company? Who are the principals? Who are the employees Who is the community?
<b>What?</b>	What is the product or service? What is the company's goal?
<b>Where?</b>	Where is the site to be established?
<b>How?</b>	How does the company intend to meet its: <ul style="list-style-type: none"><li>• objectives?</li><li>• production levels?</li><li>• sales volumes?</li></ul>
<b>Why?</b>	Why was the product or service developed? What are its attributes or qualities How is it superior to existing products?

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**Stage V – Prepare an Annual Marketing Plan, Continued**

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**Marketing Plan Template, Continued**

<b>Market Analysis</b>	
What is the company's initial proposed market?	Local
	State
	Regional
	National
How does the company fit in the chain of basic markets?	Consumer
	Industrial
	Government
	International
	Supplier
	Manufacturer
What are the target market boundaries?	Wholesaler
	By consumer group
Define the dollar value of total potential sales within the proposed target market.	Geographically

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Market Analysis, Continued

Describe the targeted user groups by major customer groups.

Age

Gender

Lifestyle

Values

Define the company's sales level objectives and what percentage of total market share they represent.

Describe how planned production capability compares to proposed market demand.

Outline any outside influencing factors that may affect the marketability of the product or service and how they can be overcome.

Packaging/labeling regulations

Sales tax and effect on consumer price acceptance

Buyer preferences (e.g., health food vs. junk food)

Technology changes to production (extrusion method)

Describe when the product/service is usually purchased.

On impulse

As a regular grocery shopping item

Does the proposed marketing strategy address these trends?

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Market Analysis, Continued

Who usually does the purchasing of the product or service?

Who makes the purchasing decision?

Is the marketing strategy properly directed to this group?

Describe the varieties of the product available.

Quality

Price

Packaging

Variety

What are the markets for each of the above?

Where is the product normally purchased?

#### **Retail**

Department stores  
Specialty shops  
Supermarkets  
Discount stores  
Convenience stores  
Vending machines

#### **Wholesale**

Manufacturer  
Distributor  
Franchiser  
Wholesaler

Are the marketing efforts properly targeted to these locations?

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Market Demands

Who is the competition?

What are their products or services?

How does this product or service compare to the competition?

Quality

Price

Packaging

Variety?

What percentage of the total market does each competitor enjoy?

What can this company realistically expect to obtain as market share? (Provide sales forecasts.)

What does the public normally demand from this type of product or service?

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Market Demands, Continued

Does it meet these demands?

Do the packaging, sales aids, and point of purchase displays emphasize the qualities of the product or service?

Packaging

Sales aids

Point of purchase displays

What level of sales growth is anticipated over the next three years?

Can the plan deliver the production levels necessary to support this growth?

What are the company's long range plans?

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan

##### Product Pricing

What is the consumer acceptance price range for this type of product or service?

How does the proposed product's or service's price compare?

Is there sufficient margin between the manufacturer's cost and the consumer acceptance price level to provide for markups at the wholesale, distributor, and retail level?

Does the price allow for freight, projected profit, price fluctuations in the market place, and consumer interpretation of value?

Are coupons or discounts being considered to promote consumers to try other varieties?

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## Stage V – Prepare an Annual Marketing Plan, Continued

### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

##### Pricing, Continued

What is the product cost breakdown?

- Costs of goods sold**
  - direct labor
  - direct materials
- Operating expenses**
  - selling expenses
  - communications expense
  - general and administration expenses (including freight)

What markups are allowed at each level of distribution?

Manufacturer

Wholesaler

Retailer

##### Example

	Manufacturer		Wholesaler		Retailer	
Cost	90%	Cost	80%	Cost	60%	
+		+		+		
Markup	10%	Markup	20%	Markup	40%	
=		=		=		
Selling Price	100%	Selling Price	100%	Selling Price	100%	

Are the most economical and cost efficient methods of processing and packaging utilized (including raw materials inputs) to keep product or service costs down?

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

##### Distribution Channels

How does the company plan to get the product or service to the end user?

What channel of distribution is to be used?

Direct (manufacturer to consumer)

One stage (manufacturer to retailer to consumer)

Traditional (manufacturer to wholesaler to retailer to consumer)

Multi-stage (manufacturer to broker to wholesaler to retailer to consumer)

Who or what company will carry out the distribution?

Are commissioned salespersons to be used?

What are the costs associated with the proposed distribution channels?

How do these channels affect delivery or production time frames?

What are delivery terms?

How are products to be packaged for shipping and end-user display?

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

##### Distribution Channels, Continued

What physical handling is required?

Are display aids (e.g., clip racks, bins) to be provided to retailers?

Does packaging meet regulatory requirements (e.g., labeling, seals)?

Is packaging . . .

Eye-appealing?

Complementary to product?

Identified and priced with universal product codes (UPCs)?

How is customer satisfaction and quality control feedback gathered?

What minimum shipping orders are required?

What minimum inventory levels are needed to prevent late deliveries, back orders, split shipments?

What system is to be used for processing orders, shipping, billing?

What trade terms will be offered?

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

**Promotions**

Describe the company's promotions package.

Advertising

Selling

Sales promotion

Publicity

How much is budgeted in Year 1 in each category?

Advertising

Sales promotion

Selling

Publicity

**Advertising**

What percentage of each media is to be used in your overall advertising package?

Television

Radio

Newspapers

Magazines

Billboards

Business cards

Co-operative advertising with wholesalers/retailers

Other

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## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

##### **Selling**

What type of sales persons are to be used?

- Brokers
- Commissioned salespersons
- Other

What tools are to be provided to salespersons to assist getting orders?

- Volume discounts
- Purchasing shelf space
- Other

Will a sales training program be offered?

How will sales effectiveness be measured?

What incentives will be offered to salespersons for new accounts and other achievements?

##### **Sales Promotions**

What sales promotion activities are planned?

- Point of purchase displays
- Sales aids
- Samples
- Coupons

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*Continued on next page*

## Stage V – Prepare an Annual Marketing Plan, Continued

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### Marketing Plan Template, Continued

#### Marketing Strategy and Details of the Plan, Continued

##### Sales Promotions, Continued

What costs are associated with each? Point of purchase displays

Sales aids

Samples

Coupons

##### Publicity

How does the company plan to kick off the introduction of the product

using publicity? Endorsements

Testimonials

Referrals

Truck signs

Consistent visual theme









# PACE

## Program for Acquiring Competence in Entrepreneurship Fourth Edition

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Module A-1 Evaluating Your Potential as an Entrepreneur  
Module A-2 Understanding the Nature of Small Business  
Module A-3 Making the Most of Marketplace Opportunity  
Module A-4 Investigating Global Markets

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Module B-2 Finding Help for Your Small Business  
Module B-3 Choosing the Right Type of Ownership  
Module B-4 Developing a Marketing Strategy  
Module B-5 Finding the Best Location  
Module B-6 Developing a Pricing Strategy  
Module B-7 Financing Your Business  
Module B-8 Addressing Legal Issues

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Module C-2 Managing Your Human Resources  
Module C-3 Promoting Your Business  
Module C-4 Maximizing Sales  
Module C-5 Maintaining Accurate Records  
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