

project planning and management series

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ACKNOWLEDGEMENT

The Project Planning and Management Series consists of a set of manuals and associated modules presenting practical approaches, tools and techniques for project planning and management. (See list on back cover). A product of the Government of Jamaica/USAID National Planning Project (1976-1980), the series was developed by the Project Development Resource Team (PDRT) of PAMCO for use in "action-training" workshops and reflects extensive experience in training and project development. All present PDRT members are contributing authors and have worked together in writing, revising and publishing the series. Special credits are due to Dr. Merlyn Kettering for design and development of the series; Dr. Bruce Brooks for writing final versions of many modules; Mrs. Marjorie Humphreys for assuming primary editing and production responsibility and for organizing draft papers into more useful materials; Mr. Lascelles Dixon, head of PDRT since 1979, for designing the cover and improving many of the illustrations; and Mrs. Christine Hinds and Miss Linette Johnson for typing the drafts and final manuscripts. Any comments on the series and its usefulness are welcome.

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Published by:

The Project Analysis & Monitoring Co. Ltd. (PAMCO)
Inter-Continental Hotel, 4th Floor
Kingston, Jamaica, W.I.

MODULE 15

MARKET STRATEGY ANALYSIS
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A. PREREQUISITES:

References: MODULE 14 - Demand Analysis

B. DISCUSSION:

B.1 *Demand Analysis and Market Strategy Analysis*

The purpose of a market study is twofold:

1. to estimate the volume of goods or services to be provided by the project (or capacity established through the project) and relative prices for the outputs; and
2. to devise a market strategy to ensure that the outputs are utilized.

The first purpose is discussed in MODULE 14 - DEMAND ANALYSIS. In this module, the focus is primarily upon the second purpose, a marketing strategy.

Market Analysis is related to project preparation and appraisal is concerned with the study of the need for a project's output. If an adequate market does not exist, a project cannot be justified and more time and money should not be spent in developing a project. The degree of accuracy and precision with which the project is studied varies with the stage of development of the project, so that in the initial stages of project formulation, it is necessary to have rather general estimates of demand based upon some clear assumptions which can be examined in more detail in the advanced studies of project preparation.

The object of a market demand study is to estimate the volume of goods or services provided by a new productive unit which the community would acquire or consume¹. Demand is generally related to price, as pricing is the key to estimation of supply and demand, as most instances demand normally varies with price.

The market may be defined as the area in which exchange of goods or services takes place. The limits of markets are determined not so much by an actual geographical location or distance as by the mobility of the products and the availability of means of payment and distribution and of information on potential wants and supplies. In the modern era of

¹ See last page for footnote.

mobilization and communication, market limits are set more by political and monetary barriers than by physical attributes such as transportation or distance.

The purpose of a market strategy study is to ensure that the project outputs are effectively moved within the market from the point of production to the point of utility or consumption. The market strategy views the market as a concept incorporating places, communications and transactions where people who have produced certain things seek people who desire those same things. A market strategy for a project ensures that the demand for the project's outputs is effectively translated into use or consumption of those outputs.

The demand study for a project will examine the total demand for certain specified goods and/or services, and then focus upon the demand from that total volume which would be met by the project. Demand Analysis must also look at the supply. There are always two sides to a market -- demand and supply. Market analysis involves a study of the total market in the sense of total demand and total supply. It then focuses upon the demand and supply for the specific output of the project, i.e., its place in the total supply-demand complex. There may be, for example, an unfilled demand that the project can fill; or in contrast, there may be a nearly complete supply and the project must devise a market strategy which can effectively compete with present suppliers. The marketing strategy is the way in which the project intends to find its place in the total market.

Unfortunately, most project analysis of markets is limited to demand analysis and neglects a study of the market and the development of a marketing strategy. It is simply assumed that if a market exists, any worthy project will be able to develop a marketing programme adequate to take advantage of market opportunities. This is unfortunate as it has been the faltering point of many worthy projects (and can be especially seen among many small enterprise or community projects). Once it has been determined that an adequate market exists, a project marketing strategy is developed to take advantage effectively of that market.

B.2 *Marketing Strategy:*

An Aspect of All Projects

Development projects are designed to develop new capacities for the delivery of goods and services. These goods and/or services must be consumed or used if the project is to be successful, i.e., continue to produce the goods or services because there are continuous demands for their outputs, at reasonable costs. All development projects create "production units". These production units are not limited to simply industrial or agricultural production, but productivity in all sectors. "Production units" also include schools, hospitals, roads and other structures which are not always "marketable" in the common

sense of selling and buying at a specific place and price. The importance of studying markets for a project applies not only to projects whose outputs consist of products sold in ordinary commercial markets, but equally to projects whose output may be absorbed in employment (e.g., training of teachers, doctors, engineers, plumbers) or which may take the form of services where there are not direct payments (e.g., the use of roads, hospitals, administrative units), or which take the form of subsidized services or goods (e.g., education and training, water services, and so on). The same kind of need or demand analysis and marketing strategy is relevant to all projects, regardless of the nature of their outputs and whether they will be sold in the ordinary commercial markets.

B.3 *An Overview of Demand Analysis*

Demand Analysis provides the background for developing a marketing strategy as it gives a complete picture of the market situation which the project's outputs must enter. The demand analysis must make a distinction between the total volume of transactions in determined goods or services (and at particular prices) and the demand which would exist for the productive output of the particular project. Though total volume must exist and is very relevant to the growth projections of productive capacities, the ultimate objective must be to determine the volume of goods or services from the new productive capacities of the project -- and whether the project can fit itself into the demand and supply picture at present.

It is not enough to point vaguely to the general "needs" of the population to be served. The project studies must determine "effective demands" i.e., the demands which involve persons or groups willing and able to pay for the outputs. Every project output must be paid for by someone, even if it is not sold on the commercial market. The direct beneficiaries or users may not pay for certain outputs in government development projects as in the ordinary commercial sense. The costs of a hospital or school may be paid out of government budgets. But budgets are limited, and the costs of operations and maintenance must be effectively incorporated into those budgets if the project is to be successful. For example the costs of maintaining a road or staffing a new clinic must be paid out of an operating budget of a Ministry. The subsidies necessary to keep certain agencies and industries alive must come from government revenues. It must be established that this can be effectively done, i.e., that there is an "effective demand" just as there is an effective demand on commercial projects, or the project should not be undertaken.

The kind of market demand analysis required will vary according to the type of project under consideration. For the purpose of this outline the main focus will be on the analysis of the markets for goods and services sold in product markets. If the focus is on enterprises which are expected to be self-supporting, the following considerations must

be incorporated.²

There are two main levels of market analysis. The first is concerned with the *market for the product*. This takes into account total sales of a product coming from all producers in the industry. The second level of analysis concerns the *market for individual producers*. The major considerations applicable to these two levels of analysis are quite different.

There are three major aspects to appraising the size of the market for a specific commodity or product. These are:

- a. *The present size of the market.* This can be measured either by estimating (i) total consumption by users or (ii) total production by suppliers. The choice of method will depend on what statistics are available in a particular industry. Ideally it is advisable to build up estimates of both sides of the market as a check on each other.
- b. *The apparent rate of growth of the market.* Since there are often a few years between the conception of a project and the time it reaches production, and since new enterprises frequently net additions to the supply already being offered to the market, it is important to know whether the market is growing (and at what rate), is relatively stationary, or may even be declining. Historical figures are the most important source of information on market growth. A major problem of judgment concerns the extension of past trends into the future. A useful general law to bear in mind is that the growth of markets of many products is often much higher, in percentage terms, during the early years in the life of a particular product than it is after a product "becomes established". However, there are many exceptions to this statement, which is offered only as a warning; it is certainly not a universal rule.
- c. *Critical Factors.* It is important to analyze the factors which seem to determine the rate of growth for the market of a product. Listed below are six factors which are often important in explaining market growth. Very often more than one factor will be present; sometimes one factor may partially or completely cancel out another. Some factors operate over fairly short periods (and may occur quite suddenly) while others operate only gradually over a period of many years. The six key factors are:

2 See footnote on last page.

i. *Growth in incomes.* This is usually measured by reference to national income. Taken by itself, national income is usually too general a measure to help in projecting the demand for most products. Much more useful guides are given by disaggregating national income by sectors-of-origin (agriculture, transport, power, light, industry, etc.) or objects-of-expenditure (consumption expenditures on specific products, public and private investment in different industries and sectors). In estimating the growth of national income bear in mind that it grows in magnitude for two main reasons, i.e., growth in population and growth in per capita incomes. For essential consumer goods, growth in population may be more significant than growth in per capita incomes; for less essential goods the reverse may be true. Changes in "per capita income" is an average concept: national income divided by population. For many projects it may be more important to know something about the distribution of income, for example a breakdown between urban and rural incomes and the numbers of people in different income classes. Many countries have statistics on income distribution as a result of conducting *consumer surveys* to prepare cost-of-living statistics. These statistics can be used to derive figures of income-elasticity (the percentage growth in consumption of an item divided by the percentage increase in income).

ii. *Reduction in price.* It is possible, of course, to measure "the market" in terms of numbers of units sold or in terms of their total value. These two concepts are related by unit price they find expression in the simple equation $R = pq$ (total revenue equals price times the number of units sold). Everyone knows that people tend to purchase more units of a product at lower prices than at higher prices. But different products differ greatly in their sensitivity to price changes. The concept of "price elasticity" is the chief measure to this sensitivity. It is probably more difficult to make accurate estimates of price elasticity than it is for income elasticity. However, an estimate of this factor is important in estimating the potential size of any market.

iii. *Substitution possibilities.* Products are often hurt by the loss of existing markets to other products which fill the same need better or more cheaply. This arises from two main sources, technological change (which may allow some new and better product to displace an existing product even though the new product may be no cheaper; it may even be more expensive), and changes in the relative price of the product in its main markets. Wherever a particular product has close substitutes (e.g., cotton and rayon, cigarettes and cigars, trucks and railways) what is important is not the absolute price of the product, but its price in relation to the prices of substitute goods. Market analysis must always be on the look-out for

substitution possibilities. It is true, of course, that substitution can often help a product as well as threaten it - i.e., it may be possible to develop new uses for a particular product or to offer it to the market at lower prices as a result of finding cheaper ways of producing it, thereby taking over markets formerly held by competing products or materials.

iv. *Changes in tastes.* "Changes in tastes" may be defined as the desire of buyers to increase or decrease purchase for reasons not primarily related to changes in their income or the price of the product. This factor may be important for certain consumer goods. Tastes may sometimes be influenced by producers (e.g., through advertising), but they are often irrational and can be subject to unpredictable changes. It is therefore important to appraise how likely it is that the size of a particular market may be influenced favourably or unfavourably by changes in taste.

v. *The rate of investment.* The market for capital goods is, by definition, dependent on the rate of capital formation in a particular country. It is usually possible to disaggregate investment into its major sectors or branches and it is of course important to do this. The market for cement is obviously much more dependent on the rate of investment in dams and large urban buildings than it is on investment in agricultural machinery.

vi. *Government budget allocations.* In many countries effective demand for many products is heavily influenced by the size of the Government's own investment and consumption activities. This factor is much more important in analyzing the size of domestic markets than it is for analyzing markets involving international trade. The preceding factors represent underlying forces that explain *why* markets grow. Sometimes it is just as useful to have some measure of whether or not they are likely to grow, and how much - regardless of what the explanation may be.

For this purpose it is useful to collect statistics on physical consumption per capita (per annum) in other countries, particularly other countries at similar levels of per capita income. Examples of such statistics are: meters of textile consumption per capita; kilos of sugar consumption per capita; kilos of cement consumption per capita; kilowatt hours of electricity per capita; etc. These figures need to be used cautiously, by people who understand something of how particular goods are used (i.e., the typical structure of demand for a product).

B.4 *The Scope of Marketing Strategies*³

The conception of what is meant by marketing has expanded considerably in recent decades. Marketing is not only the exchange of an item or a service for a price. Marketing is more than:

- shopping for a certain commodity or service;
- selling your produce (e.g., as a farmer sells vegetables);
- encouraging foreign outlets for local commodities;
- advertising or salesmanship;
- or any of a variety of other specialised transactions which occur within the total flow of goods from the point of production to the point of consumption.

Marketing includes all those business activities involved in the flow of goods and services from the point of production to the point of consumption.

Most goods and services marketed in the present context have certain intermediary agents or institutions which are involved in the movement of the product or project outputs from the point of production to the point of consumption. In fact, the outputs may even change form in that movement. A marketing strategy looks at all the points in that flow from production to consumption, even if the project is not directly responsible, to understand the nature of the total market, its role within the market and to ensure that the market is working to the advantage of the project.

B.5 *Outputs and Markets*

The characteristics of the outputs of a project have a large impact on the nature of the project marketing strategy, and the nature of the market itself. To illustrate, in agricultural marketing, certain farm products tend to be bulky and their weight and volume are high in comparison to their value when compared to certain manufactured goods. Therefore the demand on storage and transport within the marketing strategy is greater and more specialised. The products can lose much value during transportation. Vegetables and fruits may become rapidly overripe or decay if not consumed or kept in cold storage. Cattle may lose weight if taken long distances before slaughtering, and meat may spoil if not refrigerated soon after slaughtering. The movement of milk from producer to consumer is

3 See footnote #3 on back page.

another simple example of the importance of knowing the whole flow of market processes. Easy spoilage requires efficient marketing processes, if the market is to be effectively tapped. Some products are seasonal, so that there is not an even flow of outputs through the year and the marketing strategy, and the system, must be able to cope with a demand for consumption which is constant while the production is seasonal. This is also true of infrastructure in certain instances where productivity is limited by climatic factors during certain seasons, e.g., construction may be restricted during a rainy season. In other instances, the demand may be seasonal (holidays) while production is constant. So it is important to know initially the characteristics of the project outputs and their relative impacts on the nature of the marketing strategy which must be developed.

B.6 Marketing Functions

Marketing strategies are determined to a great extent by requirements, characteristics and conditions as noted above. However, it is possible to identify three main functions in a marketing process--assembly of the outputs or products, preparation for consumption, and distribution to consumers. It is true that not all the functions are relevant to all outputs. Certain infrastructural items are static and cannot be assembled. Some outputs are ready for consumption and require no preparation, such as furniture; and in some cases distribution is not a concern as the consumers come to the central points for consumption, e.g., in a restaurant. None-the-less, each of these functions should be examined in relation to a marketing strategy.

Assembly involves the concentration of products or services at a number of convenient points so there can be more economical use of transport or processing facilities. This may be especially true of certain forest and agricultural products which are produced on scattered farms, but it is also true in the case of exporting items, or of moving items from small enterprises to a major metropolitan centre. Assembly also includes the element of storage until there is sufficient quantity for transportation to the points of consumption or some intermediary points. So assembly is critical in an industrial enterprise, such as food processing plant, where consideration must be given to a storage for assembly until sufficient quantities are brought together for movement to the next stage in the flow from producer to consumer.

Preparation of a project's output may be part of the responsibility of the project, or it may be transferred to another entity. In the case of agricultural products, most farm products undergo substantial changes before they are ready for the final purchaser--processing and packaging. Some preparation is necessary for the conservation of quality of a product (freezing or drying), some to meet consumer demands (slaughtering), and some for attractiveness (packaging). There is preparation of all types of project outputs, whether goods or services. Services must often

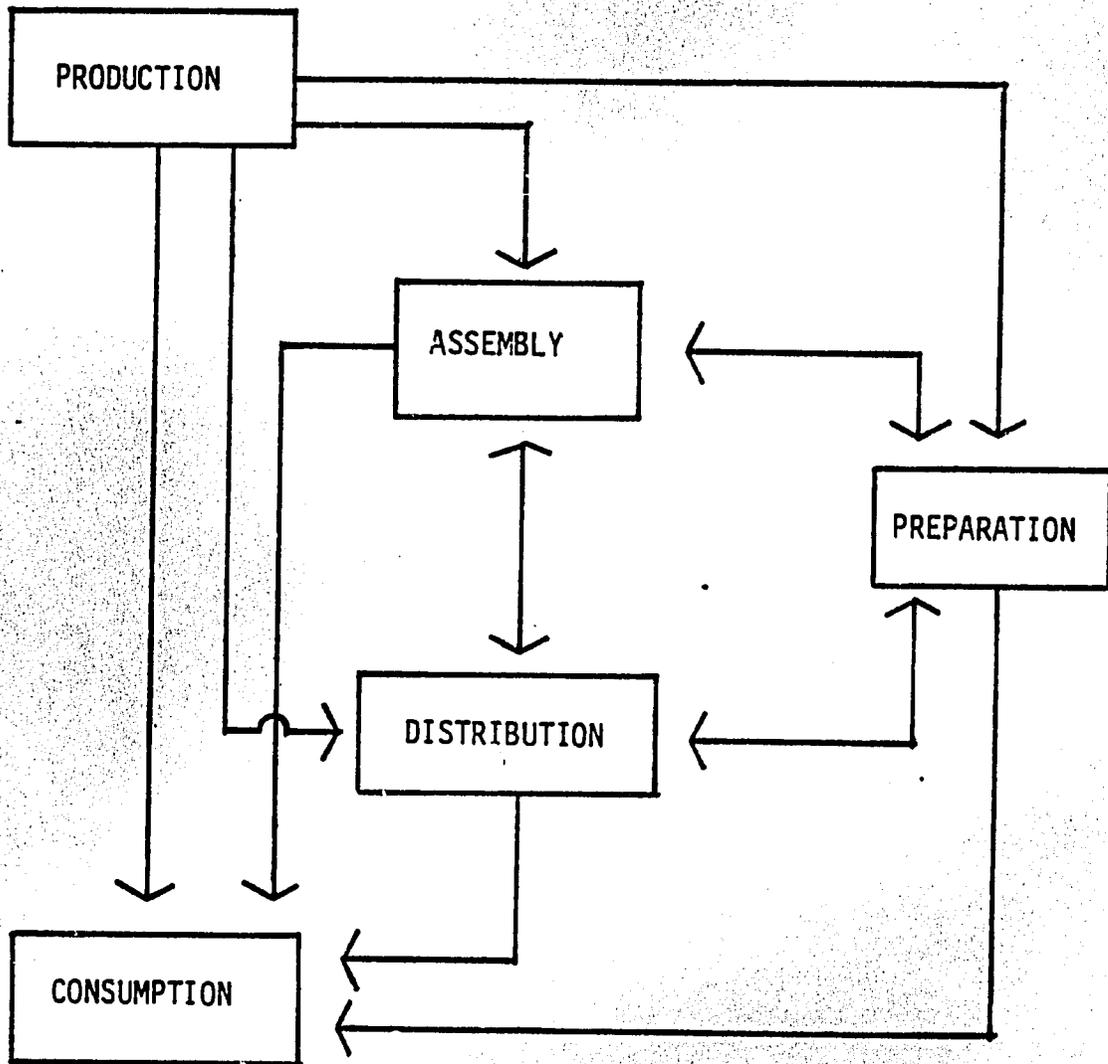


FIGURE 1. MARKETING FUNCTIONS AND MARKETING FLOWS

DO NOT DUPLICATE WITHOUT PERMISSION

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be "packaged" with other services to make a whole set of complementary products which interest and attract the consumer (as in the tourist industry). Preparation may also be the responsibility of the consumer (as in the cooking of fresh vegetables by the housewife or the orientation of a new employee by an employer). Whatever the output, it is seldom ready for immediate consumption or utility without some preparation. In some instances, the project may incorporate in its processes an approach to preparation which can be part of its marketing strategy. This is as true for students, or medical services as it is for agricultural and industrial products.

Distribution is the movement of the project outputs from the point of production to the point of consumption. However, in certain special cases, it may involve the reverse, i.e., movement of consumers to the point of consumption. This can be illustrated in the case of a resort or restaurant or a new road. However, even in the latter instance, the *distribution of information* is an important part of the market strategy to ensure that there is a linking of the product or output to the consumer. It is the task of distribution to match available outputs to the consumer demand by direct interaction--supplies of goods and services flowing to the consumers or consumers flowing to the goods or services. Distribution must adapt the flows to demand through experience and market intercommunications so that the flow of supply is constant with the flow of demand.

As shown in FIGURE 1, the flows from the point of consumption may be direct to the point of consumption as when the farmer sells directly to a neighbour, or may pass through any combination or all of the three basic market functions described above.

B.7 Marketing Services

In carrying out a marketing strategy, a number of subsidiary services are often necessary. These marketing services facilitate the movement of the outputs from production to consumption and basically fall into two major categories:

- physical handling services used in changing the form of the product or in moving it or the consumers from one place to another; and
- transfers of ownership of the output on its movement from production to consumption.

These marketing services are surveyed below, and each project should be aware of which are relevant to its particular output and market and which will be under its control or under the control of other agents.

Transport is the movement of outputs or consumers between places and

is one of the most important marketing services. It affects every phase of marketing and is essential to the total operation of a marketing strategy because it accounts often for a very substantial part of total marketing costs. Proper transport is required whether the output is vegetables, furniture, teachers, or medical services. Transportation is one of the key factors in an effective marketing strategy and must be monitored to ensure quality of product being maintained.

Storage is another obvious service in a marketing strategy because of seasonality in supply or demand or because of the need to collect a specified quantity of goods (or service supplies) before movement to a subsequent stage in the marketing process. Storage duration may vary from days to years, and always involves consideration of facility demands based upon the nature and characteristics of the products to be stored. Though this is obviously relevant to commercial projects and outputs, it is also relevant to service projects where clients may be "stored" or kept in queue for the service or in the instance of training when the trainees must be kept within touch until they are placed for utilization. Storage may occur at several different stages in the marketing sequence of a project marketing strategy, and facilities and reserves at the major points should be analysed and determined within the marketing strategy if there is to be an effective use of the available demand for the project outputs of goods or services.

Grading and Standardization are basic to the marketing strategy for any type of project output. Grading means the sorting of the outputs into different lots with similar characteristics of quality. For some products this may be size, shape, or other features of commercial value or preference and for others they may be quality of a different nature based upon levels of achievement, such as areas of training specialization and class levels. Standardization involves the establishment of uniform or minimum levels of quality specifications as a basis for grading and requires that specifications be identified in precise and universal terms, e.g., in testing students, or judging agricultural products.

Packaging involves the containing of the outputs in distinct groupings for the convenience of the marketers or the consumers, e.g., for transportation or handling or for consumption. Packaging has become a convenient marketing concept for containerising certain agricultural goods, for facilitating display of industrial goods or for the convenience of consumers attractiveness.

Information processing all aspects of the flow of information with regard to the supply of outputs and the demand of consumers. It includes advertising as a most obvious component, but also includes surveys which form the basis for educational or health project outputs or road and other infrastructural projects. The objective of information processing is to bring producers and consumers together over the product (along with all intermediary processors or agents necessary to complete the transaction in the expanded market concept).

It includes contacting possible users or consumers as well as suppliers and also the negotiation of the terms of the exchange in commercial and non-commercial projects.

Financing is a critical aspect of the marketing system because the outputs cannot move without financial support. At the various stages of movement through a marketing system, money must be supplied to facilitate the basic market functions and other market services. Often it is the financing requirements of marketing which make a project turn its products over to intermediary agents at lower prices to facilitate the financial returns and to avoid the risks of marketing. *Risk-bearing* deals primarily with the financial aspects of marketing, but is also associated with other aspects, such as ownership and quality maintenance.

A large number of *marketing agents* may be involved with the total marketing strategy for a project's outputs. The project planners need to be aware of all these agents and their commitments to a project. When a project is in operation, it is necessary for project managers to be constantly monitoring the behaviours within the total market to determine the behaviours of all agents involved in the flow of project outputs between production and consumption. This may include direct buyers, higglers, wholesale distributors, government agencies, packers and processors, commission agents, brokers, bankers, retailers, and so on. Marketing strategies require a survey of all possible agents involved in the marketing spectrum of activities and a clear definition of the roles and responsibilities of these in relation to project outputs to ensure that a demand which has been identified in the Demand Study can be translated into an effective demand of an ongoing transfer of project outputs for consumption and utilization.

C. PURPOSE:

The purpose of a market strategy is to ensure that the process of getting the project outputs to the beneficiaries or consumers is operational. All points or roles in the market process will not be the responsibility of the project, as a general rule. But it is essential that the project manager ensure that the functions and roles are performed so that the project outputs are utilized as planned and have the intended impact for achieving the overall project objectives. The market strategy outlines the entire marketing process, the responsibilities for the various roles and functions, and the activities falling under the project which will influence the smooth operation of the marketing of project outputs.

D. USES:

The outlining of the various functions, services and agents involved in the marketing strategy for a project's outputs, is an aid to ensuring more successful projects. The inability to move outputs effectively into their intended uses or consumption is a major problem which is related to the nature of the output as well as the marketing strategy. Though a

sound marketing strategy cannot resolve certain basic problems in marketing outputs, it is too often overlooked during the planning stages and thus becomes a problem as projects go into operation. Many of the major problems encountered in marketing can be anticipated with a good marketing strategy and analysis to complement the Demand Study of a project.

E. DEFINITIONS:

F. LIMITATIONS:

G. ASSUMPTIONS:

H. OUTPUT:

The output is a Market Strategy for the project which clearly identifies the project outputs, the consumers or beneficiaries, and the processes for bringing the outputs and the beneficiaries together. The marketing strategy will identify the *market functions* necessary for the project output (e.g., assembly, preparation, distribution), *marketing services* required for effective marketing (e.g., transport, storage, packaging, standardization financing, information processing, advertising, etc.), and *persons or groups responsible* for the performance of the functions and services, whether they fall within the project or are outside agents.

FOOTNOTES:

1. See a very complete discussion of Demand Analysis, with case studies in U.N. *Manual On Economic Development Projects*, New York, United Nations, 1958 Chapter 11.
2. This section is an excerpt from a paper by Baldwin, G.B. "Outline Market Analysis for Project Appraisals", January, 1968, pp. 2-5.
3. For a more complete discussion using these concepts, as applicable to agricultural products, See Abbott, J.C., "What Marketing Means", Chapter 11 of *Marketing Problems and Improvement Programmes*. FAO Marketing Guide No. 1. Rome, Italy, FAO, 1958.

Early PDRT working papers relevant to this topic include "Market Analysis", M. Kettering, 1977

Project Planning and Management Series.

MANUAL - I Planning for Project Implementation
MANUAL - P Project Planning
MANUAL - M Project Management
MANUAL - PF Pioneer Farm Implementation Planning

MODULES

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3. Work Breakdown Structure
4. Activity Description Sheets
5. Project Organization
6. Linear Responsibility Charts
7. Project Scheduling - Bar Charts
8. Bar Charting for Project Control/Scheduling
9. Project Scheduling - Network Analysis
10. Milestones Description Charts
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13. Project Technology Analysis
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