MARKETING FOR SMALL BUSINESS INSTITUTES IN POLAND

Part One

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Gerald E. Hills
Walery Lach
Bogdan Sojkin
M. Catherine Ashmore
Piotr Koryński

Solidarność Economic Foundation
Gdańsk, Poland

and

Center on Education and Training for Employment
The Ohio State University
1900 Kenny Road
Columbus, Ohio 43210-1090

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S.Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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FINANCE	Lynn Neeley, Northern Illinois University, Bogusław Plawgo, The Białystok Business School;
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We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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Finally, we are indebted to the publishers or authors who gave permission to use selected portions of their copyrighted materials. They include:

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MARKETING MODULE

INTRODUCTION

Small business owners and managers become successful by identifying the needs of customers in the marketplace and then creating and delivering products and services to fulfill those needs at an acceptable price, with appropriate promotion. Profits are the end result because potential customers are more satisfied with your company than with your competitor's.

Marketing begins with an understanding of customers, competitors, the industry and the changing environment. This information provides the foundation for good decisions regarding which products and services to offer, what prices to charge; which distribution methods to use; and how to effectively use advertising, personal selling, publicity and/or sales promotion to sell the products. Promotion is but one part of marketing and is usually less important to success than the products, prices and distribution offered. Together, these components comprise marketing. When these decisions are made so as to "fit" a specific market and to reach specific marketing objectives (for example, sales level or building an image for the business), the small business owner has a "marketing strategy."

Marketing is a major group of competencies that address basic business choices for effectively competing. This survey course should introduce the competencies needed to develop a customer orientation for a small business and increase profitability.

Marketing competencies include the ability:

- To develop and implement a marketing plan as a major part of the strategic plan.
- To analyze your market with attention to industry analysis, competitor analysis, target market profile, and sales projections.
- To use a process for developing new products, prepare strategies for products, and identifying the unique aspects of marketing services.
- To learn how to make more profitable pricing decisions.
- To make channels of distribution decisions as part of a marketing strategy.
- To use the promotional mix—advertising, sales promotion and publicity to increase sales and profitability.
- To effectively use selling and sales management within the marketing program.
- For retailers, to learn useful unique aspects of retailing management and financial strategy.

This set of materials is designed to provide a basis for businesses to be created and be more successful because of effective marketing!

UNIT 1

Title: **MARKETING AND THE MARKETING PLAN**

Purpose: To understand the comprehensive nature of marketing management and begin to develop a marketing strategy and plan.

Objectives: Upon completion of this unit, participants will . . .

- be able to apply the marketing concept to their firms and decide if they should be more customer oriented (versus alternative orientations).
- understand the actual definition of marketing and start to think about possible implications for using this comprehensive view in their businesses.
- understand the relationship of the marketing plan to the business plan.
- be aware of the steps in developing a marketing plan and begin to make notes in the exercises that can be used in developing their own marketing plan.

Materials:

Transparency 1-1:	Marketing Concept
Transparency 1-2:	Management Orientations Compared
Transparency 1-3:	What is Your Definition of Marketing?
Transparency 1-4:	Marketing Management
Transparency 1-5:	Marketing Plan: Steps
Transparency 1-6:	Marketing Management in Action
Transparency 1-7:	Marketing Strategy
Transparency 1-8:	Marketing Strategy
Transparency 1-9	Segmentation - Target Markets
Transparency 1-10:	Good news, bad news
Transparency 1-11:	Every Individual ...
Transparency 1-12:	Toothpaste
Transparency 1-13:	Marketing Mix
Transparency 1-14:	Product Market Growth Options
Transparency 1-15:	Importance of Success Factors. What did the Owners of Highly Successful Firms Say?
Transparency 1-16:	Select the 4-6 Success Factors Which have made the Greatest Difference in your Business

Handout 1-1:	Extent of Marketing Orientation - Worksheet
Handout 1-2:	Modern Manufacturing Company - a Case Study
Handout 1-3:	Marketing Management
Handout 1-4:	Management Audit
Handout 1-5:	Good Management Scorecard
Handout 1-6:	Strengths and Weaknesses
Handout 1-7:	The Marketing Plan
Handout 1-8:	Strengths and Weaknesses
Handout 1-9:	Customers and Prospects
Handout 1-10:	Products and Services
Handout 1-11:	Marketing Worksheet: Target Markets, Marketing Objectives, Marketing Program
Handout 1-12:	Marketing Overview

Reference for Instructors:

See materials in Book 2 Instructors Readings only.

Estimated Time: Total, 3 hours.

Marketing concept and exercise	30 minutes
Orientations and case	30 minutes
Marketing defined	15 minutes
Marketing Plan and exercises	45 minutes
Marketing Strategy	45 minutes
Success Factors	15 minutes

UNIT 1

MARKETING AND THE MARKETING PLAN

CONTENT	PROCESS
A. Review the Session Objectives In this first session, we will introduce the subject of marketing and ask you to consider how marketing can be used in your businesses. There are some mistaken ideas as to what marketing really is, so it is very important to discuss this in some detail. This is the first of eight units on the subject of marketing, and by the conclusion, you will have had the opportunity to use the readings and presentation to evaluate and, hopefully, to improve your marketing efforts. Today we will not focus on promotion, but there will be complete sessions on promotion later in this program.	Refer to the Unit Outline.
B. Marketing Concept Marketing is a set of things you can do. But equally important, it is a philosophy or perspective you can use throughout your business. The marketing concept cites this perspective. It is not a definition of marketing, but it is the heart of marketing. The heart of marketing is a strong orientation towards customers by all the people who work in your company so as to have more satisfied customers and more profit. Each of the items in this exercise are for you to consider in your business. Do you already do each one or is there a chance that it could be done more	Discuss TP 1-1. Distribute HO 1-1 and ask participants to complete the Extent of Marketing Orientation Exercise and also quickly write down other specific ways that they could be more customer-oriented. Do this as you discuss each item by asking them how they do — or how they could consider each item within their businesses.

CONTENT	PROCESS
effectively? Please make notes as we consider each item. (Then read each item and ask for their ideas.)	
C. Alternative Management Orientations	
Manufacturing Oriented Sales Oriented Technology Oriented	Discuss TP 1-2: Management Orientations Compared.
Now that you have read the Modern Manufacturing case, what would you have done differently if you had owned that company? (Discussion.)	Provide participants with HO 1-2. Allow them some time to read it and then discuss the Modern Manufacturing Company Marketing Oriented case. Key point: Management did not adequately consider customers (or other external forces) early in the process.
Related to the marketing concept is the fact that other orientations (not customer orientation) become part of the thinking of the business owners and managers. As shown here they represent different mindsets which can have a major impact on how a business is actually operated. "Manufacturing" applies to service producers as well as product producers (e.g., a dentist). All of these orientations can be good for your business in some degree. The problem arises when too much weight is placed on certain ones and too little emphasis is placed on marketing. (Cite the "overall mental sets" as shown in the transparency and compare them.) Selling is one part of marketing, but only one part. Even more important, a sales orientation often begins, in reality, with a product or service that needs to be sold. Marketing, in contrast, begins with determining what the customer will buy and <u>then</u> developing or obtaining the products to sell. Modern manufacturing was dominated by a technology and sales orientation because	

CONTENT	PROCESS
they went for years with no feedback from potential customers.	
D. Marketing Defined	
American Marketing Association Definition	Discuss TP 1-3: What is Your Definition of Marketing?
Marketing Management Definition	Discuss TP 1-4: Marketing Management.
What is marketing? (Discussion — and write on chalk board or pad.) This is the current definition of marketing that is used by business owners around the world. You can see that it encompasses many activities and decisions. Promotion is just one part of the definition. Marketing encompasses all of the factors that you can control (pricing, product design, etc.) which ultimately determine whether or not the customer will buy and rebuy from your business. There must be a sale or an exchange which benefits both you and the customer. Otherwise, customers will not buy again and they will tell others not to buy from you. Both of these definitions help to define what we will be covering in all of the sessions in this program.	Provide participants with HO 1-3: Marketing Management, which is an excellent introduction to marketing.
E. Developing a Marketing Plan	
As shown here, the marketing plan is a set of steps beginning with analyzing your business situation — that is, the environment, your industry, your competitors and your customers — and then using that valuable information to help make decisions about which marketing strategy to use. What mar-	Discuss TP 1-5: Market Plan: Steps Provide participants with HO 1-4: "Management Audit," HO 1-5: "Good Management Scorecard," HO 1-6: "Strengths and Weaknesses." Ask participants to complete and then discuss the "Good Management Scorecard,

CONTENT	PROCESS
keting objectives are realistic and achievable? What target markets should you be serving? What products, services, prices, distribution and promotion decisions should you be making?	the "Sales and Marketing Management Audit," and the "Strengths and Weaknesses" (focus on marketing) exercises. Then ask three or four participants if they hope to change any of their current marketing practices. How can they improve? (for a similar more detailed marketing plan outline, you may refer to reading - Bangs, Chapter 6).
These questions are, of course, part of your business plan as well. Your business plan requires a careful study of your target markets and a marketing strategy, so these marketing sessions can be very helpful to you as you develop your business plan. For a similar, more detailed marketing plan outline, you may refer to Chapter 9 in your reading.	To reinforce D and E, briefly discuss TP1-6: "Marketing Management in Action" as a "picture" of marketing which shows how the components fit together.
Part of the marketing plan outline here includes looking at your internal marketing strengths and weaknesses and your external marketing opportunities and threats. A good beginning toward writing this part of the marketing plan is to complete these three exercises. Let me give you ten minutes to very quickly complete these — and you can return to them next week to think about them more. (Then discuss some of their responses briefly.)	
Finally, here is a diagram or "picture" which reviews what we have covered so far (cite each component).	
F. Marketing Strategy	Discuss TP 1-7: Marketing Strategy and present TP 1-7 and TP 1-8.
Marketing strategy for your company includes three types of decisions as shown here. These are steps 2, 3 and 4	Discuss TP 1-9: Segmentation — Target Markets. Divide in order to better serve

CONTENT	PROCESS
in the marketing plan outline that we just reviewed. First is the careful determination of which market segments or target markets to serve.	subgroups of customer needs (and therefore "conquer"). Deliver to participants HO 1-9: Customers and Prospects. Discuss TP 1-10: Good News, Bad News (but assure them this is <u>not</u> good marketing!)
Also, what marketing objectives can be achieved? Although the most obvious objective is sales volume, it may be important to also have "soft" qualitative objectives. Marketing success depends on human behavior. What proportion of potential customers in your market are <u>aware</u> that you exist? How many of those have a favorable <u>attitude</u> toward you and your business? These types of objectives are difficult to measure but they can nevertheless be very important to what your sales volume is in the future.	Discuss TP 1-11: Every Individual... Show participants how they can divide up markets and better give customers what they want. Also relate to product/marketing positioning of the produce or service (within customers' minds). Discuss TP 1-12: The toothpaste example illustrates how markets can be segmented by the product benefits sought and only <u>then</u> should customer characteristics be determined. (Discussion in Bangs, Chapter 2.) Deliver to participants HO 1-10 for later reading.
Once your market segments are identified and you have decided what you hope to achieve, you must make several decisions regarding the marketing program or the "marketing mix." The term "marketing mix" is like a "cake mix" in that you mix a variety of ingredients together and put them in the oven and then later decide if it tastes good. In marketing, "ingredients" such as product quality, price, services, advertising and retail distributors are combined and put in the marketplace. The end result is a good "tasting" business success or not. It also builds the image of your business.	
Marketing strategy involves setting guidelines that usually remain stable over time. You could, for example, decide that your pricing strategy will be	

CONTENT	PROCESS
to charge "reasonable" prices, not attempt to be the lowest price competitor, and to develop a high quality, higher service image. Your prices may change over time, but your strategy of "reasonable" remains the same over time. Finally, there may be more than one strategy which will work equally well for you. Two U.S. women cosmetic companies, Avon and Revlon have used very different, but successful strategies. Revlon distributes through retail stores and advertises heavily. Avon distributes through door-to-door personal selling with less use of advertising. Now let us return to market segmentation, one other part of marketing strategy. The objective in segmentation is to ideally have a homogeneous group of customers with respect to what they want from your business. If the group has the same needs and wants, then you can develop a product or service to meet their needs well and, with satisfied customers, make a profit. If they all respond in a similar, positive way to the marketing mix you select as part of your strategy, then this is an effective result as well. At the extreme you could custom design everything to fit one customer. At the other extreme you serve the mass market, without any segmentation. The more you segment, the higher your costs. But also the greater the response of each group and, potentially, the higher the revenues. You conquer markets by giving customers what they want. One way <u>not</u> to segment is shown in this cartoon!	

CONTENT	PROCESS
As shown in this diagram, one method to use to think about homogeneous groups for your business is to draw a few combinations of the top 3 or 4 benefits that customers want from your product. Each dot shown here might be one customer for your business or it might be 1,000 customers or more. This is for automobiles and A used to be Jaguar, B Mercedes and C Volkswagon. What do customers most want from you and your competitors? Can you identify groups that are best to pursue relative to your competitors?	
Finally, if we use an example of tooth-paste, it may be seen here as well that a business owner can begin by asking what primary benefit is being sought (e.g., flavor or decay prevention) and then, as step 2, describe their demo-graphic, behavioral, personality and lifestyle characteristics. This is called benefit segmentation and it may apply to your business.	
2. Marketing Mix/Program	Discuss TP 1-13: Marketing Mix. There are often several combinations that could achieve success. Should the participants consider alternatives?
Now returning to the marketing mix, another part of marketing strategy, you can see that there are numerous ways to influence demand. There are probably other ways you can influence demand that are unique to your business. So you need to select the factors which can have the greatest impact on generating customer satisfaction and profit at the same time.	Now ask participants to complete the Marketing Worksheet Exercise for their business (HO 1-11) this is the beginning of a marketing plan.
Now you can complete HO 1-2, even though you may want to further consider your market segments,	

CONTENT	PROCESS
objectives and marketing mix in future marketing ses-sions. (Once completed, are any of you considering doing something differently — or changing your marketing strategy?)	
G. Product Market Growth Alternatives Finally, as you look to the future, you may want to consider expanding your business further. As shown here, the most obvious way is to sell more of the same products and services to the same market. But these four alternatives are worth considering as you develop your marketing and business plan. The hig-hest risk, although the potential returns <u>may</u> be high, is to enter new markets with new products/services. Which would be the best path for you to follow?	Discuss TP 1-14: Product Market Growth Options. Ask the business owners if they plan to expand and, if so, if they have evaluated these alternatives.
H. Success Factors in Small and Mid-Size Firms Let us conclude with a quick look at the factors which usually make a business successful. Highly successful small and mid-size business owners in the U.S. (Chicago) were asked what factors contributed most to their success. This is a long list of answers that were given many times. In Poland, business owners were also asked and the results were similar. As you can see, all of these answers are rated as important, but some more than others. Which ones relate directly to marketing? (high quality, customer reputation,	Discuss TP 1-15: Note that <u>all</u> of the factors are important, but that marketing is clearly important among these factors cited by business owners. Discuss TP 1-16: The 4-6 factors cited by owners which "made the greatest difference" is consistent with the other ratings, but again underscores important fundamentals.

CONTENT	PROCESS
responsive to customers, thorough market knowledge, aggressive/well done marketing/high sales capability, "fine tune" to fit the market, discover unsatisfied needs). All of these are important, and combined with other good business practices, your business will be likely to prosper.	
I. Review and Conclusions	Briefly summarize the key points made in the session and encourage continuing work on the marketing plan.
To conclude, future marketing sessions will expand on the foundation covered here today. The next session will cover marketing analysis, then will come sessions on product and service decisions, pricing, distribution, advertising, selling and, for retailers, retailing strategy. If you have some special interest in certain issues, please take a moment now and briefly write them down and then leave your notes with me when you leave today. Perhaps we can better respond to your specific needs in future sessions.	Provide the participants with HO 1-12 for later reading.
Today we have discussed the marketing concept with attention to customer orientation. We have provided a modern definition of marketing and discussed the components of marketing strategy. Please work further on these exercises prior to the next session and also please do your reading. Thank you!	Note for Instructor: It is recommended to provide the participants in advance of the session handouts: HO 1-3: Marketing Management, HO 1-7: The Marketing Plan, HO1-9: Customers and Prospects, and HO 1-8: Strengths and Weaknesses.
	Have participants read HO 2-6, HO 2-7, and HO 2-8 before the next class — Unit 2.

MARKETING CONCEPT

A Customer Oriented Philosophy,
Implemented and Integrated
Throughout an Organization
So as To Serve Customers
Better than Competitors
and Achieve Specified Goals

EXHIBIT 1–6 MANAGEMENT ORIENTATIONS COMPARED

	Manufacturing Oriented	Sales Oriented	Technology Oriented	Marketing Oriented
Typical strategy	Lower cost	Increase volume	Push research	Build Share and profitability
Key systems	Plant P&Ls Budgets	Sales forecasts Results versus plan	Performance tests R&D plans	Marketing plans
Traditional skills	Engineering	Sales	Science and engineering	Market analysis
Normal focus	Internal efficiencies	Distribution channels Short-term sales results	Product performance	Consumers and market share
Typical response to competitive pressure	Cut costs	Cut price Sell harder	Improve product	Consumer research, planning, testing, refining
Overall mental set	"What we need to do in this company is get our costs down and our quality up."	"Where can I sell what we make?"	"The best product wins the day."	"What will the consumer buy that we can profitably make?"

Source: Adapted from Edward G. Michaels, "Marketing Muscle," *Business Horizons*, May–June 1982, p. 72. Copyright 1982 by the Foundation for the School of Business at Indiana University. Reprinted by permission.

WHAT IS YOUR DEFINITION OF MARKETING?

"Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."

- AMA Board

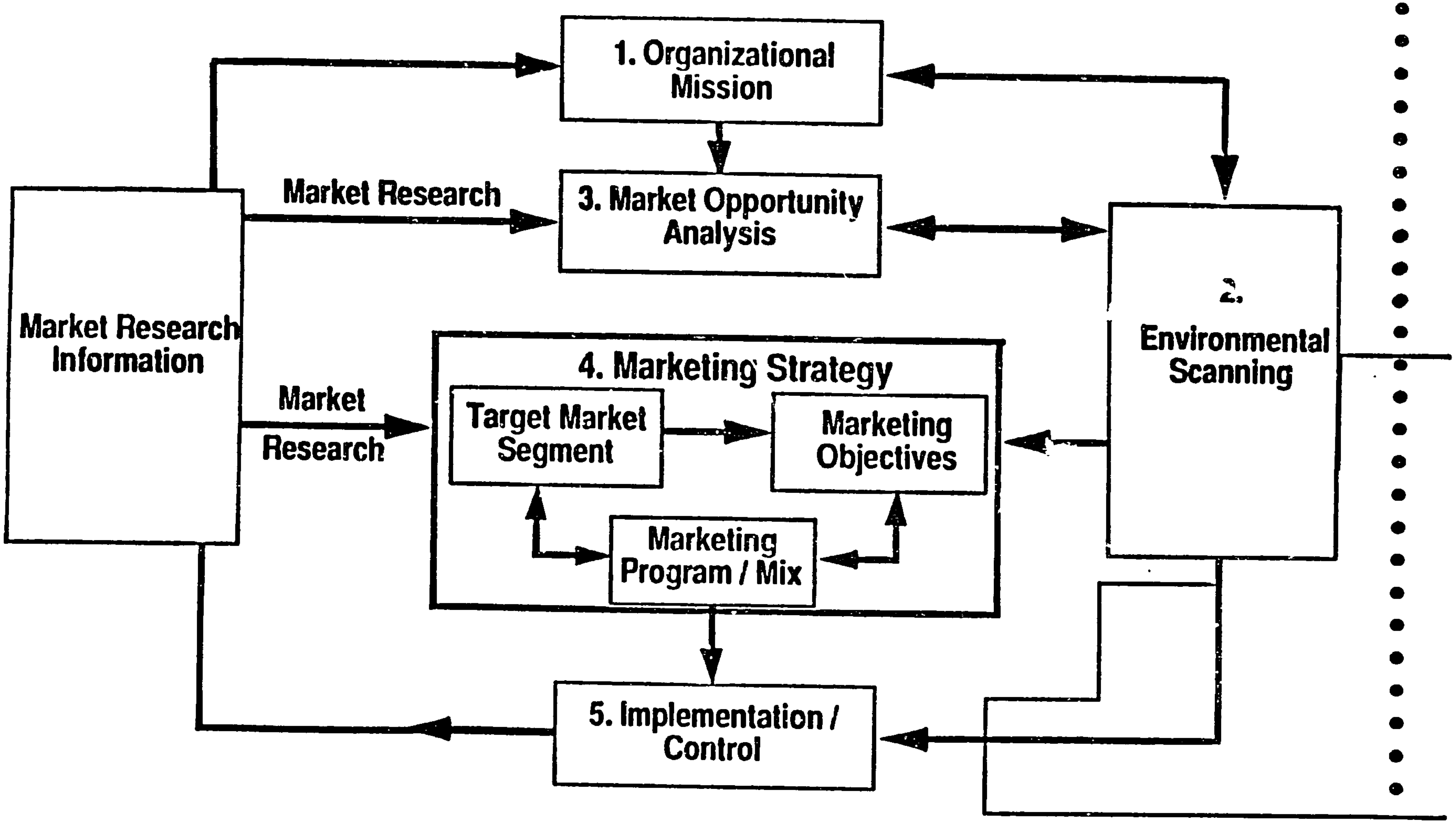
MARKETING MANAGEMENT

The Process of Scanning
the Environment, Analyzing
Market Opportunities,
Designing Marketing Strategies,
and Then Effectively Implementing
and Controlling Marketing Practices

MARKETING PLAN: STEPS

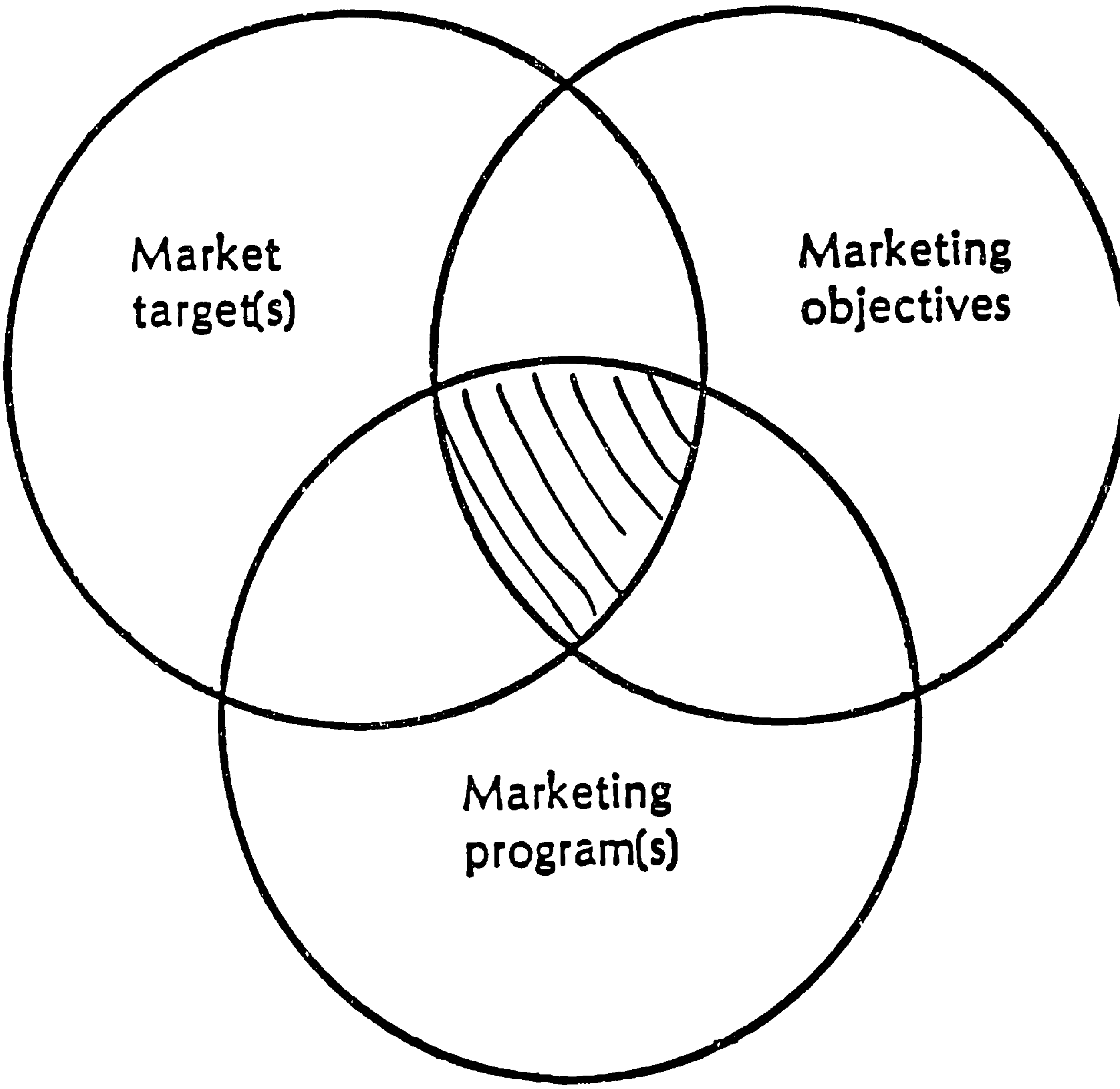
1. Define Business Situation
   •Description
   •Market Opportunity Analysis
   - Environment
   - Industry
   •(Strategic Plan Outline)
2. Define Market Segments
   •Strengths
   •Weaknesses
   •Opportunities
   •Threats
3. Set Marketing Goals and Objectives
   •Specific, Measurable Sales Increase, Distribution Coverage
   •Also Subjective: Supportive Attitudes, Etc.
4. Establish Marketing Strategy and Action Plan
   •How to Achieve Goals?
   •Be Specific
5. Decide Who Implements
   •Assign Responsibilities
6. Set Budgets to Implement Strategy
7. Monitor/Control Progress

Exhibit 1-7 MARKETING MANAGEMENT IN ACTION



V. MARKETING STRATEGY

- Segments
- Objectives
  - -Measurable
  - -$ Units, Profit, Market Share
  - -Qualitative
- Marketing Program - "Marketing Mix"
  - -Product
  - -Pricing
  - -Distribution
  - -Promotion
  - -Advertising
  - -Personal Selling
  - -Publicity


Market
target(s)
Marketing
objectives
Marketing
program(s)

SEGMENTATION - TARGET MARKETS

DIVIDE IN ORDER TO CONQUER

Homogeneous

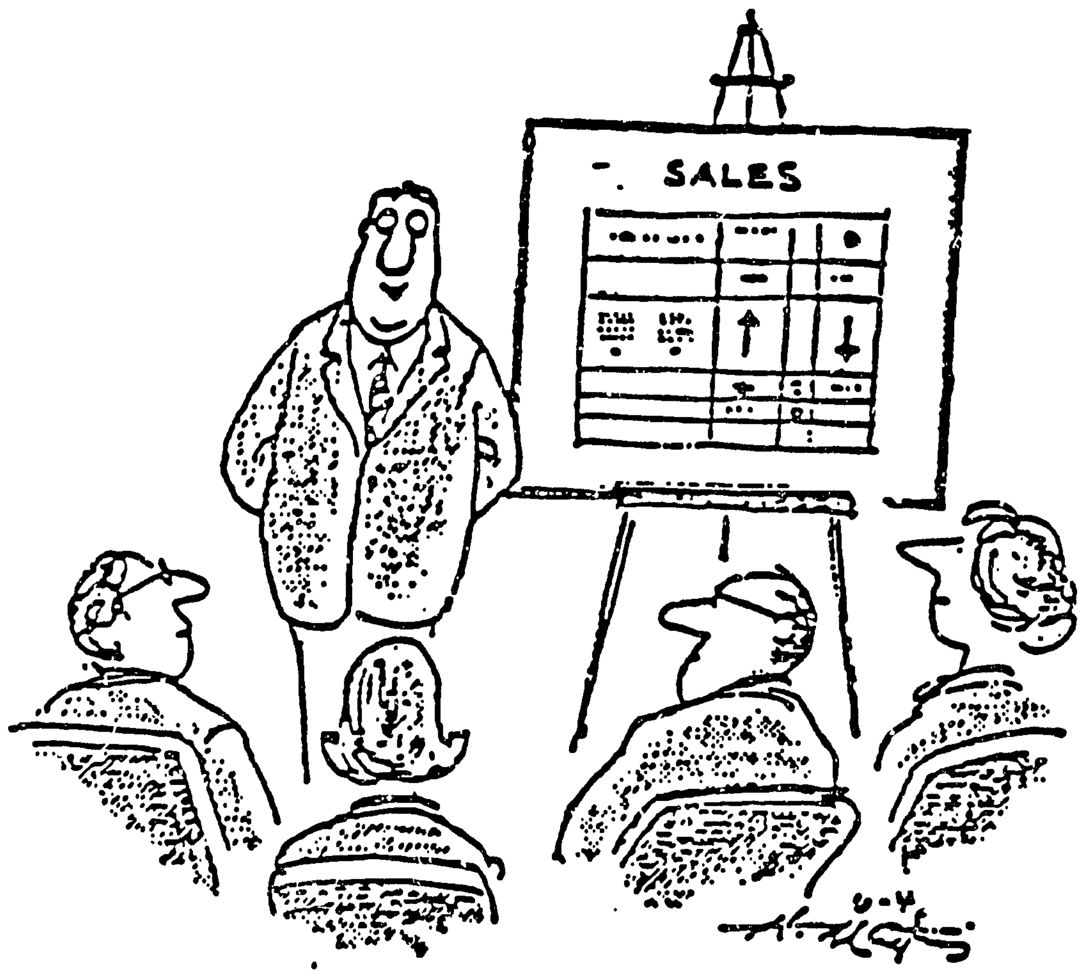
- Need/Wants/Attitudes
- Response Tendencies Toward Marketing Mix

Costs and Revenues

- Costs ↑ •Revenues ↑

TP 1-9

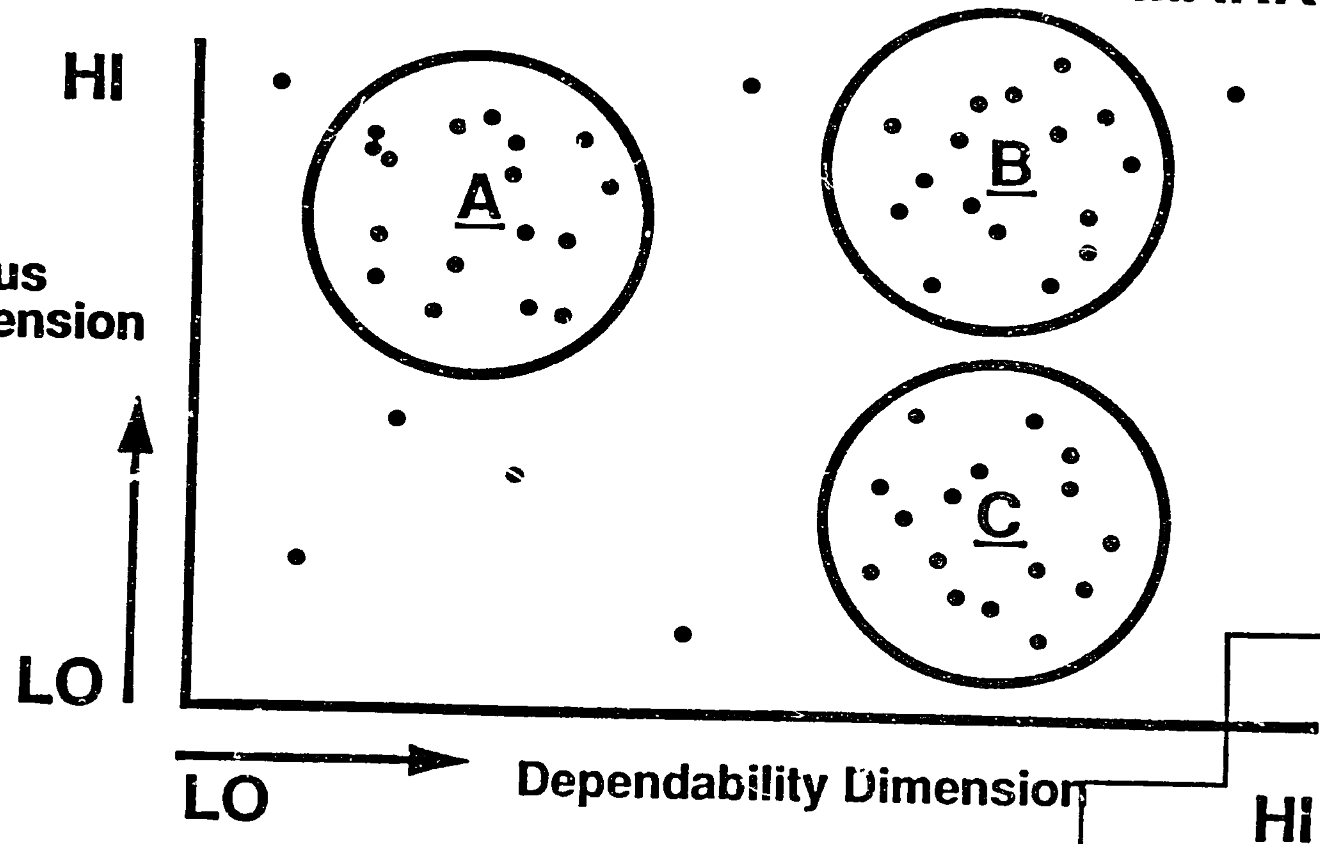
Good news, bad news



"You can, however, fool some of the people all of the time, and that's who we've targeted as our customers."

Figure

EVERY INDIVIDUAL HAS HIS OWN UNIQUE POSITION IN THE MARKET -- THOSE WITH SIMILAR POSITIONS CAN BE AGGREGATED INTO POTENTIAL TARGET MARKETS



TOOTHPASTE

Profile Variables	*The Sensor Segment*	*The Sociables*	*The Worriers*	*The Independent Segment*
Principal Benefit Sought	Flavor, Product Appearance	Brightness of Teeth	Decay Prevention	Price
Demographic Strengths	Children	Teens, Young People	Large Families	Men
Special Behavioral Characteristics	Users of Spearmint-Flavored Toothpaste	Smokers	Heavy Users	Heavy Users
Personality Characteristics	High Self-Involvement	High Sociability	High Hypochondriasis	High Autonomy
Lifestyle Characteristics	Hedonistic	Active	Conservative	Value-Oriented
Brands Disproportionately Favored	Colgate, Aim	Pepsodent, Ultra-Brite	Crest	Brands on Sale

TP 1-12

EXHIBIT — MARKETING MIX VARIABLES

Product/Service	Distribution	Price	Promotion
Features	Types of channels/	List price	Promotion blend
		middlemen	Advertising
			Media
Quality		Credit terms	Copy
	Store/distributor location		Timing
Packaging		Discounts	
			Personal selling
	Storage		Selection and training
Branding		Allowances	Motivation
	Transportation and logistics		Allocation
Services		Flexibility	
			Sales promotion
Guarantees	Service levels		
Assortment			Publicity

PRODUCT - MARKET GROWTH OPTIONS

	Existing Products / Services	New Products / Services
Existing Markets	**Market Penetration**	**Product Development**
New Markets	**Market Development**	**Diversification**

Source: H. Igor Ansoff, "Strategies for Diversification," Harvard Business Review, September-October 1957, pp. 113-24

IMPORTANCE OF SUCCESS FACTORS WHAT DID THE OWNERS OF HIGHLY SUCCESSFUL FIRMS SAY?

• High Quality Product/Service	1.13
• Integrity/Honesty with Whom I Deal	1.25
• Hard Work and Devotion to Business	1.31
• Good Customer Reputation (and Image)	1.32
• Complete Sense of Commitment to "Make It Happen"	1.34
• Attract/Retain Quality People	1.34
• Responsive to Customer Desires/Requests	1.35
• Good Management/Employee Relations	1.45
• Thorough Product Knowledge	1.51
• High Employee Devotion/Spirit	1.52
• Adaptiveness to Change	1.64
• Cost Control	1.67
• Thorough Industry Knowledge	1.71
• Maintain Adequate Capital	1.73
• Thorough Market Knowledge	1.76
• Stick to a Given Mission ("Knitting")	1.82
• Adequate Planning	1.84
• Aggressive/Well Done Marketing	1.84
• High Sales Capability	1.88
• "Fine Tune" Product/Service to Fit the Market	1.91
• Use of a Long-Term View/Vision	1.96
• Define/Discover Unsatisfied Market Needs	2.00
• State-of-the-Art Equipment	2.27

Scale:

1 = Critically Important 2 = Very Important
3 = Somewhat Important 4 = Not Very Important

"SELECT THE 4-6 SUCCESS FACTORS WHICH HAVE MADE THE GREATEST DIFFERENCE IN YOUR BUSINESS"

Owner's Answers:

- 78% of the Respondents Picked "High Quality Product/Service" as One of the Most Important Success Factors
- 45% Picked "Good Customer Reputation"
- 41% Picked "Respond to Customer Desires/Requests"
- 37% Picked "Hard Work and Devotion to Business"
- 33% Picked "High Employee Devotion/Spirit"
- 26% Picked "Good Management/Employee Relations"

WORKSHEET

EXTENT OF MARKETING ORIENTATION

1. What information do you carefully collect about the exact needs of your customers?

2. Could you consider custom designing your services or products for smaller groups of customers? How?

3. Are your (non-sales) employees specifically trained to represent your company to customers? How?

4. Are customers contacted after the sale to see their extent of satisfaction? How?

5. How do you convert unsatisfied customers to being satisfied? Any strategy?

6. Is your top marketer in the company a top-level, equal team member?

7. To what extent do you build your strategies around an in-depth understanding of your customers?

8. To what extent are activities of different people (departments?) coordinated to ensure customer satisfaction?

Modern Manufacturing Company

Modern Manufacturing Co. is a manufacturer of basic chemicals and polymer resins, located in Pennsylvania.

Bob Zicuti, a bright young engineer, has been working for Modern as a research engineer in the polymer resins laboratory. His job is to do research on established resins to find new, more profitable applications for resin products.

During the last five years, Bob has been under intense pressure from top management to come up with an idea that would open up new markets for the company's foamed polystyrene.

Two years ago, Bob developed the "spiral dome concept," a method of using the foamed polystyrene to make done-shaped roofs and other structures. He described the procedure for making domes as follows:

> The construction of a spiral dome involves the use of a specifically designed machine which bends, places, and bonds pieces of plastic foam together into a predetermined dome shape. In forming a dome, the machine head is mounted on a boom, which swings around a pivot like the hands of a clock, laying and bonding layer upon layer of foam board in a rising spherical form.

1. Foam board is stiff, but capable of controlled deformation and can be bonded to itself by heat alone.

2. Foam board is extremely lightweight and easy to handle. It has good structural rigidity.

3. Foam board has excellent and permanent insulating characteristics. (In fact the major use of foamed board is as an insulator.)

4. Foam board provides an "excellent" base on which to apply a variety of surface finishes.

With his fine speaking and reasoning abilities, Bob had little trouble convincing top management of the soundness of the idea.

According to a preliminary study carried out by the marketing department, the following were areas of construction that could be served by the domes:

1. Bulk storage
2. Cold storage
3. Educational construction
4. Industrial tanks (covers for)
5. Light commercial construction
6. Planetariums
7. Recreational construction (such as golf course starter house)

The study was based on uses for existing dome structures. Most of the existing domes are made out of concrete or some cement base material. It was estimated that considerable savings would be realized by using foam boards, due to the reduction of construction time.

Because of the new technology involved, the company decided to do its own contracting (at least for the first four to five years after starting the sales program). It felt this was necessary to make sure that no mistakes were made by inexperienced contractor crews. For example, if not applied properly, the plastic may burn.

After building a few domes to demonstrate the concept, the company contacted some leading architects across the country. Reactions were as follows:

> It is very interesting, but you know that the Fire Marshal of Detroit will never give his OK.
>
> Your tests show that foamed domes can be protected against fires, but there are no good tests for unconventional building materials as far as I am concerned.
>
> I like the idea, but foam board does not have the impact resistance of cement.
>
> We design a lot of recreational facilities and kids will find a way of sawing holes into the foam.
>
> building codes around L.A. are written for wood and cement structures. Maybe when the codes change.

After this unexpected reaction, management did not know what to do. Bob still thinks the company should go ahead. He feels that a few reports of well-constructed domes in leading newspapers would go a long way toward selling the idea.

* Source: McCarthy, Jerome E. 1978. *Basic Marketing: A Managerial Approach.* 6th ed. Homewood, IL: Richard D. Irwin.

Marketing Management*

Entrepreneur R. David Thomas opened the first Wendy's restaurant because he saw an unfilled need in the marketplace. Thus, he started with a market orientation. Realizing that many consumers wanted more choice and a fresher hamburger than they received at McDonald's, he decided to sell his four Kentucky Fried Chicken franchises and open Wendy's (his daughter's nickname was Wendy). Thomas said, "I like a hamburger with mustard, pickle, and onion, and you didn't have a choice at a McDonald's or Burger King. I thought the other ones were...just giving you what they wanted to and not what you really wanted." This kind of customer orientation is the foundation for modern marketing. "No one else was doing a very good job, and I wanted a hamburger that was different, made to order so you could choose whatever you wanted to put on it and get out of the heat-lamp and heat-bin syndrome." Thomas did not use frozen patties but made his hamburger fresh daily, and he let the customers select their own condiments. That provided customers with 256 choices. The market perceived Wendy's products to be of higher quality and better taste than those of the competition, and Thomas grabbed a piece of the market not exploited by McDonald's and Burger King. Wendy's went on to successfully offer the restaurant industry's first drive-in windows.

When Thomas started, McDonald's had 1,298 restaurants. Two years after he started, he had two restaurants. He opened two more the year after that, then four more, then 12 more. In 1973, he sold his first franchise for $5,000 (they now sell for $25,000); in 1976, there were 300 Wendy's restaurants and the company went public. By the mid-1980s, nearly 3,500 Wendy's were operating in the United States and 19 other countries. McDonald's had grown to 8,900 units and Burger King to 4,600. In the early days, Thomas joked with others about becoming as big as McDonald's. But now, people no longer laugh when he says, "We will be as big as McDonald's." R. David Thomas, along with a talented, professional management team, has once again shown what can be done with entrepreneurial spirit and sound marketing fundamentals.

***Marketing** is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*

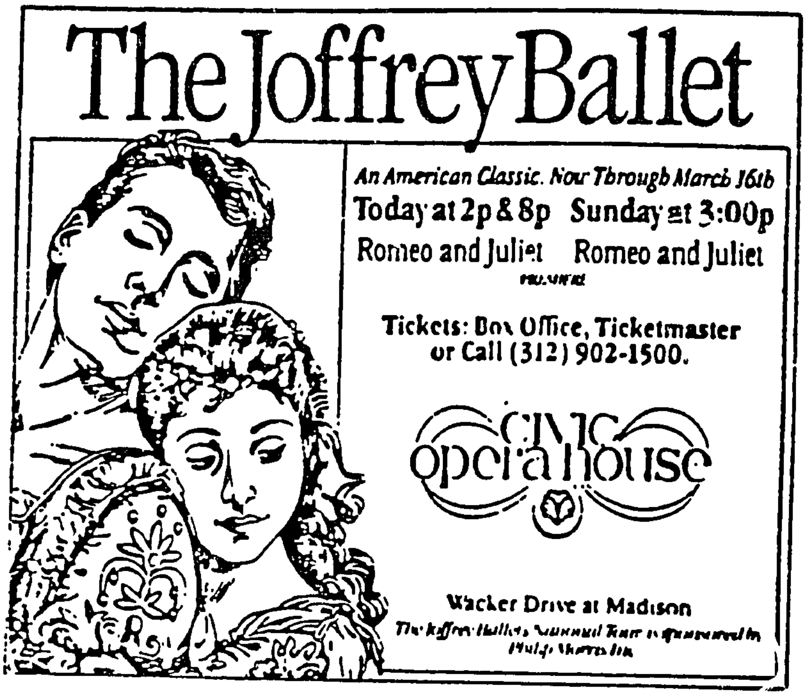
Marketing has long been a major strength in many companies. The strategic importance of marketing is widely accepted by top executives, and they are moving toward greater marketing professionalism. A study by Coopers & Lybrand, the accounting firm, indicates that in 1983 only 29 percent of executives believed that marketing was the most important management area, but

* Source: Cravens, David; Hills, Gerald E.; Woodruft, Robert B. Marketing Management. Copyright 1987 IRWIN. Reprinted and translated with permission on pp. 2-22.

by 1986, when the study was released, 64 percent held that opinion. The report, titled "Business Planning in the Eighties: The New Marketing Shape of American Corporations," concluded that strategic marketing, marketing strategies, and market plans that help corporations develop and hold a competitive advantage were paramount management issues. It stated:

> Customers needs, wants, and desires long have been management concerns at consumer goods firms, and that same marketing focus is becoming the standard at high-tech, industrial, and services firms as well...CEOs intend to get closer to their customers by forging a closer link between marketing and strategic planning, elevating marketing to equal status with other corporate functions in the process.

EXHIBIT 1-1



All types of organizations use marketing

Courtesy Civic Center for Performing Arts

The Wendy's operation illustrates the definition of marketing. Through convenient distribution of quality goods and services at the right price, Wendy's has created millions of mutually beneficial exchanges that satisfy individuals and attain company objectives. With blockbuster promotion, including Clara Peller and the "Where's the Beef?" commercials, the number of exchanges and the amount of profits continue skyward.

This chapter begins by defining marketing and discussing the marketing concept, the foundation of contemporary marketing management. Then, it compares market-oriented companies with companies that tend to be driving by technology, manufacturing, or sales. Next, it provides an overview of effective marketing management, which includes monitoring, macroenvironmental trends, conducting market opportunity analyses, developing marketing strategies, and implementing and controlling the results. Finally, the marketing management process is applied in an actual marketing situation.

Marketing today is widely used by both profit and nonprofit organizations to attain their objectives. Whether what is being marketed is hamburgers, industrial toxic gas detectors in India, the idea that high salt consumption is bad, or the Joffrey Ballet (Exhibit 1-1), marketing is basically the same. This book shows how to carry out marketing activities and how to understand and relate to those activities. We have defined marketing; now we will define a related but different term--the marketing concept.

Marketing Concept

The foundation for contemporary marketing management is the marketing concept, which provides an orientation for conducting business, a way of thinking, and a basic approach to business problems. Although the marketing concept seems obvious, a surprising number of firms still fail to grasp its far-reaching implications.

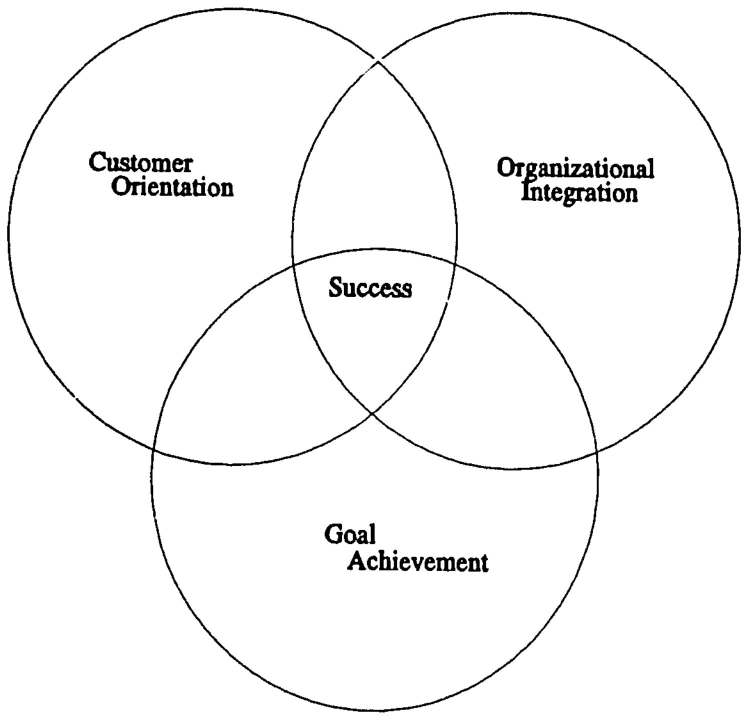
***Marketing concept** is a customer-oriented philosophy that is implemented and integrated throughout an organization to serve customers better than competitors and achieve specified goals.*

Marketing itself is, of course, a specific function in the enterprise, as are finance and accounting. But the *marketing concept* is fundamental to the overall rationale and conduct of the enterprise.

> Marketing requires separate work and a distinct group of activities. But it is, first, a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view.

As Exhibit 1-2 shows, the marketing concept is made up of three components. Starting with customer needs and wants, a firm must develop an organizationally integrated marketing strategy and thereby accomplish its organizational goals. Let us look now at each of the three components.

Exhibit 1-2 The Marketing Concept



Customer Orientation

Over three decades ago, General Electric pioneered in developing the marketing concept. As expressed by a GE executive, the concept begins with the customer: "The principal task of the marketing function in a management concept is not so much to be skillful in making the customer do what suits the interests of the business as to be skillful in conceiving and then making the business do what units the interests of the customer."

A host of firms followed General Electric's lead. Well before deregulation, John D. deButts, then chairman of American Telephone & Telegraph, entered millions of households via television advertising. His message: "We're redesigning our marketing approach to serve customer needs." The shift represented a major commitment to managing AT&T within the guidelines provided by the marketing concept. Historically a product-oriented company, this corporate giant rapidly shifted to a customer focus. The role of the customer in AT&T's new management philosophy is described as follows:

> More than technology, however, it is our customers' needs that shape our services. Accordingly, our marketing organization has undertaken comprehensive surveys of the operations of the nation's principal industries and the role that communications play in improving their effectiveness and profitability. Our aim is to design service offerings that meet or--better--anticipate these needs.

This management philosophy ultimately helped smooth AT&T's mid-1980s transition to fully confronting competitive market forces. Moreover, in contributing to the company's admirable record of offering high-quality, customer-oriented telephone services to diverse markets, it illustrates the benefits of the controversial breakup of Ma Bell.

Target market *is a group of existing or potential customers within a particular product market toward which an organization directs its marketing efforts.*

Since no businesses have the skills and resources to be all things to all people, management must identify which customer preferences can and should be met. Deciding which preferences and potential customers to serve is crucial, given any firm's limited resources and competitive strengths. Selectively choose *target markets* is an integral part of the philosophy suggested by the marketing concept. The alternative is to try to serve all potential customers in a mediocre fashion and thus to fall short in providing customer satisfaction and achieving organizational goals. A specific implementation of the marketing concept is the use of 800 telephone numbers, as reported in Exhibit 1-3.

Exhibit 1-3 More Firms Use 800 Numbers To Keep Consumers Satisfied

When gizzards and livers were dropped from the Kentucky Fried Chicken menu, disappointed customers in Louisville didn't have to stew in silence. They could air their gripes on a toll-free telephone hot line that the check chain is testing there.

Dishwasher on the fritz? Phone General Electric, whose customer service staff can also answer questions about GE jet engines or the composers of music in GE television commercials.

Kentucky Fried Chicken and General Electric are among the latest companies to join a growing list of marketers with 800 phone lines for their customers. Pioneered several years ago by Whirlpool, Polaroid, Clairol, and Procter & Gamble, the toll-free services have spread rapidly.

"Major companies, including GE, have become somewhat faceless," says Powell Taylor, manager of GE's Answer Center, which expects 1.5 million calls this year.

Answering a complaint or an inquiry costs roughly $3 for a three-minute phone conversation. Often that's more than the cost of the product itself and several times the profit that the manufacturer makes from the sale. But "companies no longer are looking at complaints as just a nuisance," says John Goodman, president of Technical Assistance Research Programs, Inc. a customer service consultant. "By aggressively soliciting them, you can improve brand loyalty."

Many companies have overlooked the cost of alienating consumers, says Mr. Goodman. His company's studies show that only about 4 percent of dissatisfied customers complain to a manufacturer. Instead, they usually stop buying the product and also bad-mouth it to nine or ten people.

In contrast, quickly resolved complaints lead to repeat purchases in 95 percent of the cases involving inexpensive items and 82 percent of those involving products that cost at least $100.

Surprisingly, only a minority of calls are actual complaints. P&G classifies one third of its calls as such: Clairol, 15 percent; and GE, 8 percent. Even irate customers frequently compliment the companies for providing human contact.

Source: Abstracted from Bill Abrams, "More Firms Use 800' Numbers to Keep Customers Satisfied," *The Wall Street Journal*. April 7, 1983. p. 31. Reprinted by permission of *The Wall Street Journal*,

Organizational Integration

For many managers, beginning with the customer's needs and wants when planning the organization's marketing efforts, is nothing more than common sense. By necessity, this managerial approach has been prevalent in successful firms for decades. Although the marketing concept is simple and logical, its significance and the difficulty of implementing it should not be underestimated. The marketing concept offers key guidelines for planning, organizing, integrating, and managing the entire enterprise--not just marketing. Its philosophy should span the entire organization because marketing and nonmarketing functions in a company together determine whether the company as a whole is customer oriented. Consider these other parts of the organization and some ways in which they can undermine the implementation of the marketing concept:

- Credit: A conservative financial administrator grants credit only to firms with the very highest credit rating and thereby alienates potential customers.

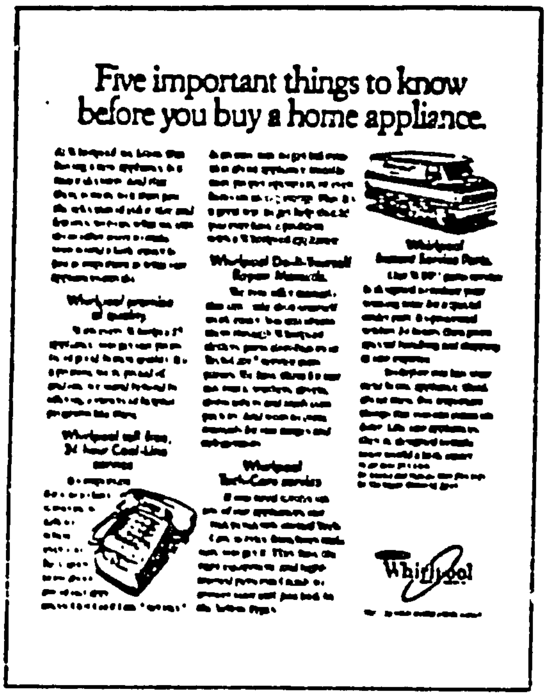
- Research and development: A product is developed with components of the highest quality, but the market rejects the added cost of such components.

- Production: Employees are not motivated to produce a quality product with resulting quality control problems and customer dissatisfaction.

- Personnel: Secretarial personnel are not trained to deal with incoming customer calls pleasantly and tactfully.

Although marketing by definition links the firm and its customers, most departments and employees in a company affect how customers perceive the firm. Only through leadership at the top, with related organizational structures, policies, and procedures, can the marketing concept be integrated throughout the firm. This requires that executives answer the question, "What business are we in?" with the answer "that of deciding which customers to serve and then satisfying them." The marketing concept is not marketing as a business function but marketing as a philosophy for doing business. It applies to accounting, finance, personnel, production, and all other business functions. Without satisfied customers who return again and again, all of these functions cease to exist! A customer-oriented, integrated organization is exemplified by Whirlpool (Exhibit 1-4).

Exhibit 1-4

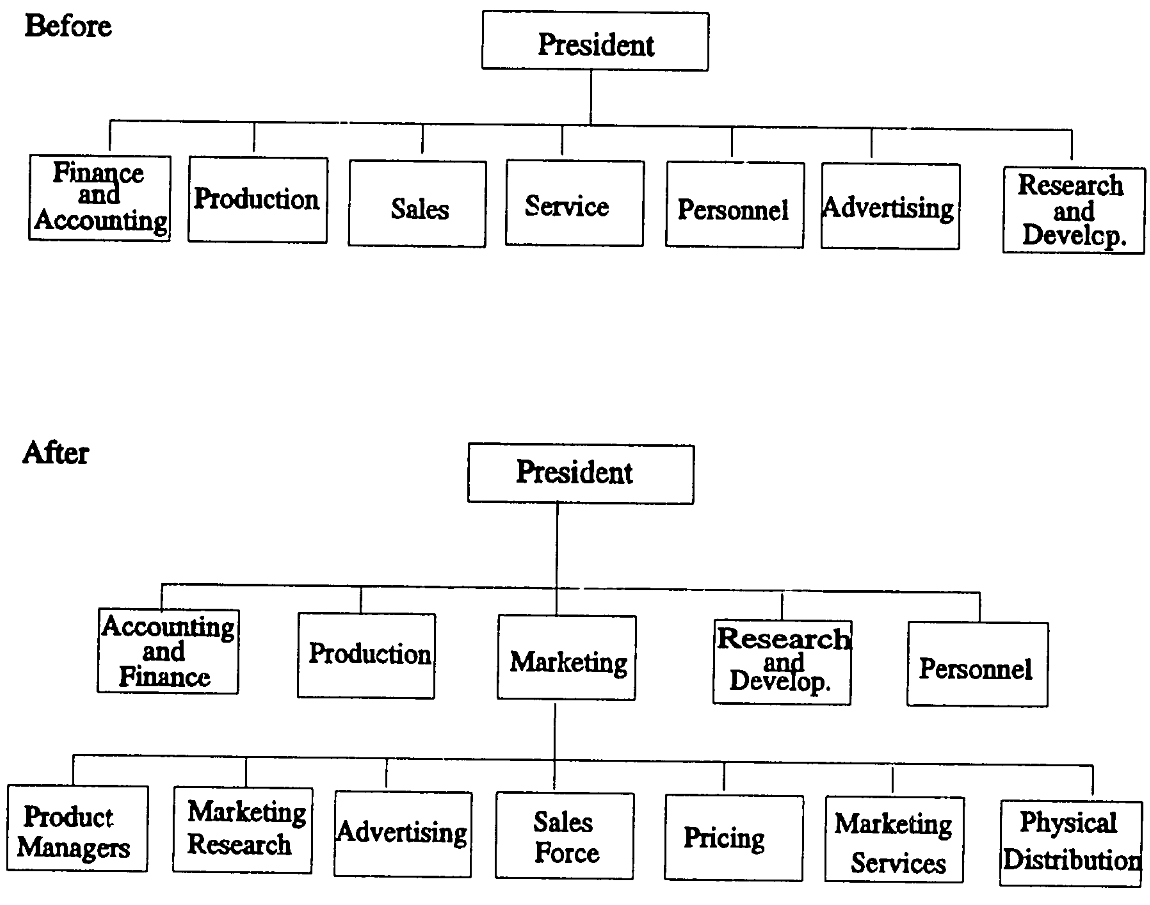


Whirlpool pledges not only a quality product but also a customer-oriented, integrated service organization.

Courtesy D'Arcy Massius Benton & Bowles, Inc.

Typical organizational structures are shown in Exhibit 1-5. The "Before" portion makes no reference to marketing--only to sales, advertising, and service. The "After" portion discloses several changes concerned with marketing. A high-level executive is responsible for organizing and managing all of the firm's marketing activities. The functions associated with the marketing program are grouped together to facilitate the development of an integrated marketing strategy. The new organizational arrangements also facilitate the coordination of marketing activities with other business functions in the enterprise. Despite these improvements, the marketing concept remains difficult to implement due to the extensive coordination that is required.

Exhibit 1-5 Organizational Integration of the Marketing Concept



Goal Achievement

In most companies, the marketing function was once viewed as responsible for achieving only sales objectives, not broader organizational goals. The marketing concept changed this view. An objective in GE's original statement of its marketing concept was "obtaining profitable sales," not just high-volume sales. Although organizations vary in what they want to accomplish, they are all concerned with more than meeting sales goals. Not-for-profit organizations such as the U.S. Postal Service are concerned with costs as well as revenues. The dangers of an excessive emphasis on sales are illustrated by the experience of the W.T. Grant general merchandise chain, an American institution for nearly a century, which went bankrupt despite a very high sales level.

Another call for attention to profitable sales, not just sales volume, was made in the 1980s by Robert A. Fox, president of Del Monte Corporation.

> Profitability in the decades ahead may depend importantly on our ability to put marketing on a more businesslike basis, to go beyond traditional or volume-oriented marketing practices and achieve a much more selective, profit-oriented approach.
>
> The first third of this century might best be characterized as "The Age of the Salesman." Markets were young, products were new, and there seemed to be no limited to the number of potential customers. A company's greatest asset was the champion salesman, with the loyalty of Willie Loman and the flair of Professor Harold Hill, traveling the land with a smile and a shoeshine, outtalking the competition.
>
> The middle third of the century might best be characterized as "The Age of the Branded Product." Dozens of brand names became household words from Maine to California. America's evenings were spent with the Chase and Sanborn Hour, the Kraft Music Hall, the Voice of Firestone, or the Camel Caravan. Advertising slogans and company logos became as familiar to Americans as the folks next door. Brand marketing had become a nationwide phenomenon.
>
> For the past (two decades), however, the marketplace has been changing....What we have been witnessing, I believe, is the start of a new era. One of "slow" or "no" growth, of even more intense competition: the age, not of the salesman or the brand, but of the total business manager. Good salespeople and good products, while still essential, are not enough. In the future, the emphasis must be on total business management--on our ability to take a much more critical approach to products, to costs, to markets, even to volume, than we have in the past.

But a further update of the marketing concept requires recognizing the role of marketing in achieving goals other than profits. Such goals may include altering a firm's image or increasing its market share. Nonprofit organizations seek a variety of goals. The American

Cancer Society strives to reduce the sale of cigarettes. A community zoo works toward educational objectives. Marketing thus plays a broader role than increasing sales (and even profit), and the third pillar of the marketing concept, goal achievement, reflects this fact. The underlying goal of all marketing activity is customer satisfaction, whether that satisfaction is achieved by visiting the zoo, giving up cigarettes, or using a newly purchased personal computer.

Variations exist in the extent to which organizations have adopted the marketing concept. Such variations have been related to firm size, channel level (manufacturers, middlemen, retailers), and type of customer (consumer or industrial). Consumer goods firms have implemented the marketing concept more extensively than industrial producers, and larger firms (over $150 million annual sales) tend to adopt and implement the concept more extensively than small and medium-sized firms. But the differences are diminishing.

Is the Marketing Concept Adequate?

Some critics have viewed the marketing concept as hype rather than actual management philosophy. In reality, however, the marketing concept simply underscores the fact that few businesses survive over the long term if they take an "us versus them" approach. for a profit or nonprofit organization to remain viable, its marketing exchanges must be perceived as mutually beneficial (see the marketing definition).

It has been said, however, that the perception of mutual benefit is not enough, that the marketing concept is faltering in today's environment because, even though organizations respond to customer groups, they are not sufficiently responsive to society. Providing narrowly defined customer groups with what they want leads to the sale of knives, guns, fireworks, high-speed automobiles, junk food, and many other potentially harmful products. Customer satisfaction may be high, but the overall societal impact may be negative.

Critics who hold such views have called for a *societal marketing concept.* This would require company managements to "include the consideration of social implications in their decision processes and their management control procedures." Although social responsibility is perhaps implied in the marketing concept, consumerism and related social concerns accentuate its importance. Increasingly, firms such as McDonald's and Xerox include a strong commitment to social responsibility in their corporate objectives and recognize that customer satisfaction must take into account the societal impact of a product's use.

Technology, Manufacturing, and Sales Orientation

The previous section focused on customer-or market-oriented organizations but made little mention of other basic management orientations that may exist in organizations. Companies that are not market oriented are often technology or product oriented, manufacturing (production) oriented, or selling oriented.

Technology and Product Orientation

A technology or product orientation often exists in firms that have had a highly successful product. Where such an orientation exists, management implicitly believes that if "you build a better mousetrap, the world will beat a path to your door." It is true that, given enough publicity, a glamorous technological innovation may for a time seem to create its own market. Yet competition inevitably grows and product obsolescence eventually sets in. Texas Instruments has been accused of being a technology-oriented company because when it was founded, its high-tech products seemed almost to sell themselves. In recent years, however, competition and the company's failure to adapt spelled trouble for its entry into the home computer market. The personal computer industry in general has come under criticism for its product orientation:

> The industry's enthusiastic marketing staffs have rushed to tell the world about the technical wizardry of their new computers--but typically haven't stopped to explain why the wold needs their products...these ads risk losing computer illiterates unversed in bits and bytes. Lotus Development Corp., for instance, once talked about the superior features of its 1-2-3 spreadsheet program, but now, sensing confusion among shoppers, simply stresses the security factor of buying the industry's best selling program.

Entrepreneurs with nontechnical products also often exclude the market side of their business. Their total commitment to a product often impedes its market success. Management in product-oriented firms thinks in terms of the product itself rather than of the needs and wants it must serve. Communicating the reasons to buy a product requires adopting the role of a buyer, not that of an engineer, inventor, or developer. A product orientation, somewhat ironically, is sometimes evident in nonprofit organizations as well. On the assumption that a service or cause fulfills a need or want, it sometimes becomes the entire rationale for an organization. But the organization may fill a need for a time and then fade away as needs change.

There is, obviously, a very real need for the development of quality technology, products, and services. But these should not be developed for their own sake. For an organization to be successful, its products must respond to needs. The continuing high failure rate of new products provides ongoing evidence that a product orientation exists in many firms. Although the product is a critically important part of a marketing strategy, the value of the marketing concept as a guiding philosophy for corporate and marketing strategies cannot be overemphasized. Peter Drucker captured the essential difference between a product orientation and a customer orientation:

> True marketing starts...with the customer...It asks, "What does the customer want to buy?" It does not say, "This is what our product or service does." It says, "These are the satisfactions the customer looks for, values, and needs."

Manufacturing Orientation

The manufacturing or production orientation arose when there was a scarcity of basic goods, because at that time the firms with the most efficient production processes were often the most successful. Demand exceeded supply, and companies could be primarily producers, with limited market sensitivity. In the highly competitive business environment of industrialized countries today, production-oriented firms often have difficulty. With intense import competition, the U.S. auto industry has been struggling to better balance a marketing and manufacturing orientation. But critics still charge that Detroit is production oriented rather than market oriented. With massive investments in production, plant, and equipment, as well as related human resources, auto executives are understandably tempted to orient themselves toward the production processes that control much of their companies' day-to-day activity. Yet the record of the past two decades provides clear evidence of that orientation's pitfalls.

By the mid 1980s, another challenge confronted U.S. carmakers. Following the onslaught of Japanese competition, European cars were capturing a growing share of the U.S. luxury auto market:

> In 1970, U.S. sales of all European luxury cars amounted to only 68,000 units. But this had changed by the mid-1980s. European "imports have become our number one competitor," said L.B. Pryor, general sales manager of General Motors Corporation's Cadillac Division.
>
> European models, which are often higher priced, produced in limited quantities, and considered better values than U.S. luxury cars, also confer prestige.
>
> From 1978 to 1983, foreign makes doubled their share of the U.S. luxury car market to 38 percent, or 363,000 units, according to figures from Chase Econometrics. More importantly, the Chase figures indicated that luxury imports were capturing the most lucrative part of the market: young people.
>
> Selling cars to those affluent families became increasingly difficult for the Big Three U.S. makers as the once-obscure European models became popular status symbols.
>
> Besides looks, import buyers prefer the performance and handling of foreign modes.

Success requires good products, good production, good marketing, and a well-coordinated team effort. The philosophy that an organization exists to create satisfied customers in more viable than the philosophy that an organization's existence is justified by the creation of superior production processes. An organization that exists to serve the larger community and society, has a sound foundation for long-term success.

Sales Orientation

Finally, an organization with a sales orientation is one that assumes that effective selling can push its output into the hands of customers. Even professional personal selling, however, is at most one element in an overall marketing program. A selling orientation is an orientation geared toward converting an existing product into cash rather than an orientation that begins with customer needs and responds to those needs before the product rolls off the production line. Pushing products is less necessary if an organization's products are better able to fill needs than the products offered by competitors. An office furniture producer learned this truth. The furniture, prices, and distribution channels of his firm were like those of most other firms in the industry. He believed that his key to success was a better group of furniture brokers and more company salespeople. The firm went bankrupt within a year. This producer had fallen victim to a sales orientation.

Exhibit 1-6 Management Orientations Compared

	Manufacturing Oriented	Sales Oriented	Technology Oriented	Marketing Oriented
Typical strategy	Lower cost	Increase volume	Push research	Build Share and profitability
Key systems	Plant P&Ls Budgets	Sales forecasts Results versus plan	Performance tests R&D plans	Marketing plans
Traditional skills	Engineering	Sales	Science and engineering	Market analysis
Normal focus	Internal efficiencies	Distribution channels Short-term sales results	Product performance	Consumers and market share
Typical response to competitive pressure	Cut costs	Cut price Sell harder	Improve product	Consumer research, planning, testing, refining
Overall mental set	"What we need to do in this company is get out costs down and our quality up."	"What can I sell what we make?"	"The best product wins the day."	"What will the consumer buy that we can profitably make?"

Source: Adapted from Edward G. Michaels "Marketing Muscle." *Business Horizons*, May-June 1982. p. 72 Copyright 1982 by the Foundation for the School of Business at Indiana University. Reprinted by permission.

The different management orientations are detailed in Exhibit 1-6. The differences between a manufacturing, sales, or technology/product orientation and a market orientation are clear. Marketing is oriented toward market share and profitability, not toward lower production costs, higher sales at all costs, or more glamorous technical achievements. Marketing is committed to well-designed and organizationally integrated plans rather than to a narrow focus on production plant, sales forecasts, or R&D efforts. Marketing is oriented toward creating satisfied customers rather than toward internal efficiencies, short-term sales results or product performance. All of the latter are necessary, but they are not sufficient to create satisfied customers. Marketing develops strategies based on analysis of the market rather than responding to troubles by cutting costs, selling harder, or assuming that an improved product is always essential for success. And, most important, marketing begins with the customer, not with production costs, sales, or technological landmarks.

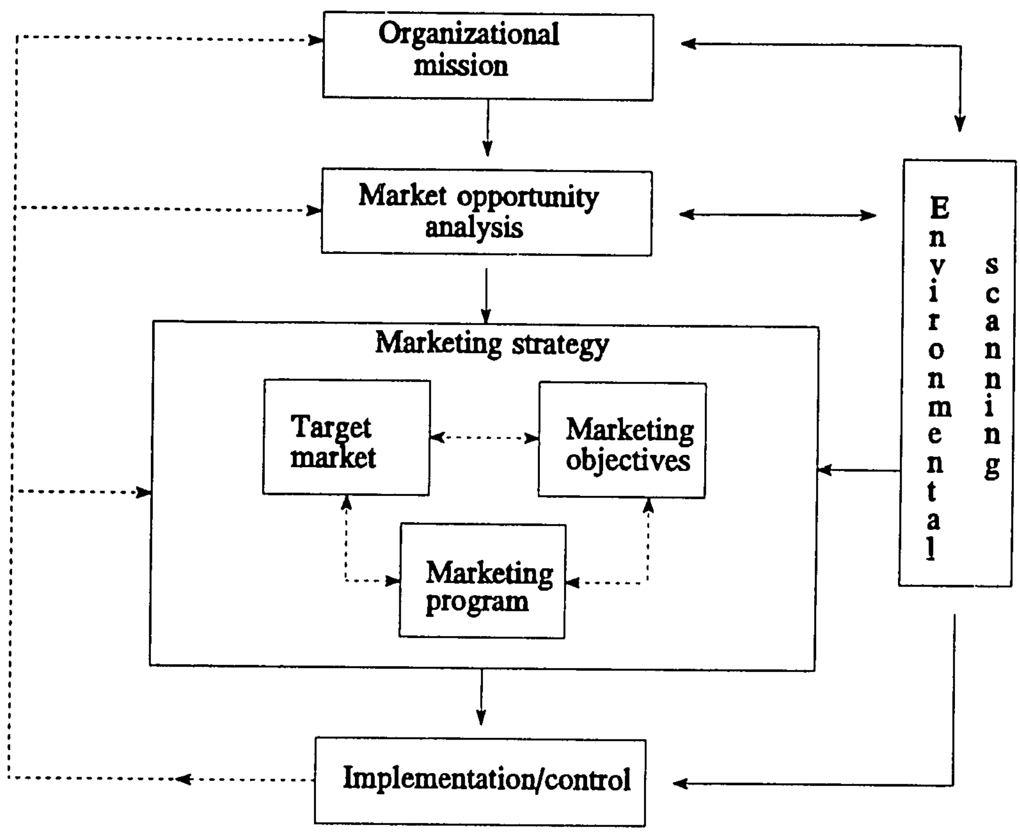
Marketing Management

Marketing management involves several activities, including environmental scanning, market opportunity analysis, marketing strategy programming, and implementation and control. This entire book is devoted to discussing these subjects, shown in Exhibit 1-7, which presents an overview of the basic components of marketing management and their interrelationships. The organization's mission provides the priorities for scanning the broader environment and identifying and analyzing market opportunities. Understanding the changing marketing environment and the organization's markets, in turn, provides a basis for developing effective marketing strategies. Then specific target markets are defined, marketing objectives delineated for each target market, and the numerous marketing program decisions made (prices, advertising, distribution, etc.). Together, these activities make up a marketing strategy, which is then implemented and controlled. Implementation occurs only after programming decisions are made;

***Marketing management** is the process of scanning the environment, analyzing market opportunities, designing marketing strategies, and then effectively implementing and controlling marketing practices.*

programming decisions are based on target market decisions and realistic objectives; target market decisions and realistic objectives hinge on in-depth market opportunity analyses; all of these stages benefit from keeping a keen eye on the shifting environment; and, together, these stages make a major contribution toward achieving the corporate mission. But before considering the components of marketing management, let us consider how the organizational mission shapes marketing management.

Exhibit 1-7 Marketing Management in Action



Organizational Mission

The mission of an organization defines the organization's basic purpose and what the organization wants to accomplish. In the mid-1970s, Sara Lee Corporation was restructured around a core business concept--emphasizing major businesses with strong leadership positions in major markets. Sara Lee divested itself of some businesses and added others. Other than the Sara Lee brand itself, its brands included Popsicle, Rudy's Farm, Shasta Beverages, Slenderalls, Underalls, Electrolux, and Fuller Brush as well as lesser known brands. By the mid-1980s, it formalized a management priorities process providing flexible guidelines for managing change. The Sara Lee mission statement provided fundamental direction: Sara Lee Corporation's mission is to be a leading consumer marketing company in the United States and internationally by manufacturing, marketing and distributing:

Food and consumer packaged goods products through retail outlets;
Products and services for the foodservice industry; and
Consumer products through distribution channels that are directed to the consumer.

Sara Lee's primary goal is to consistently maximize the corporation's long-term financial performance so as to better serve its employees, stockholders, customers, and the communities where it does business. To accomplish this, Sara Lee:

- Focuses on products and services that are particularly sensitive to marketing and responsive to emerging consumer trends.
- Ensures an exceptionally high level of quality for all products and services offered.
- Uses a decentralized management approach so that product and market knowledge, expertise, and innovation can be effectively applied.

Mission statements are by definition broad in scope, but each word in such statements is important. For example, the word *internationally* in Sara Lee's mission statement is used with serious intent. The company's operating income from non-U.S. operations from 1975 to 1985 rose from 11 to 25 percent, and it is seeking to achieve a similar growth rate until 1990. The mission statement sets the priorities for scanning the marketing environment.

Environmental Scanning

Environmental scanning helps identify market opportunities and threats and provides guidelines for the design of marketing strategy. Environmental analysis concentrates on the macroenvironment--the economic, governmental, technological, social, and natural environments.

***Environmental scanning** is information collection and interpretation concerning outside forces, events, and relationships as they affect or may affect the future of the organization.*

The environment can create opportunities for some companies and threats for others, as seen in the $3 billion market for automated building heating and air conditioning controls. Technological change meant a shift from electromechanical to electronic controls in the middle to late 1960s. Then, in the 1970s, global governmental forces contributed to the acceleration of energy prices, making it more economical for building owners to install systems that reduced utility bills.

In 1972, Johnson Controls, Inc. introduced the first minicomputer-based system to regulate a commercial building. By the mid-1980s, the firm had sales of well over $1 billion and a 30 percent market share. While other fine old Milwaukee companies such as Rexnord and Allis-Chalmers coped with troubled times, 97-year-old Johnson Controls, Inc. had relatively few worries about the future.

Johnson Controls' management anticipated the changing technological and industry environment and developed a strategy to copy with it. Global forces affecting the energy industry provided even greater opportunities. Identifying and evaluating relevant environmental change as essential means for capitalizing on new opportunities and circumventing threats to markets and marketing strategies.

It is tempting to simply project current environmental trends into the future. but history tells us that such projections are fraught with pitfalls. It is easy for management to ignore an organization's broader environment, especially given day-to-day operating pressures. Yet to look outside the company only to competition and markets is to ignore the macroenvironment--the source of many changes.--As Sara Lee stated in its *1985 Annual Report*, "What's different these days is the *accelerating pace* at which change confronts companies...The daily papers overflow with reports of demographic shifts, technological innovations and altered lifestyles. Trends spill into each other, and the ripples reach every corner of society." The key is to anticipate important environmental forces and adapt in time.

Environmental forces *are changes emanating from the environment with the potential of impacting organizations' market opportunities and strategies.*

Building adaptive strategies requires an understanding of both the nature and the rate of change. And extremely few environmental forces are easy to predict. In the 1970s, two recreational vehicle (RV) retailers opened their doors within a mile of each other. Only one of them is still operating. The successful retailer, anticipating substantial gasoline price hikes and consumer uncertainty, minimized the initial investment in facilities and inventory. The unsuccessful retailer, ignoring the signals from external forces, purchased land, constructed a building, and offered a large RV inventory and a full array of services. The changing environment reduced consumer demand for RVs, and the second retailer was forced to liquidate. One could argue that with the high level of environmental uncertainty at that time, neither retailer should have started.

Market Opportunity Analysis

A product-market is comprised of individual and institutional end users (ultimate consumers) who are able and willing to purchase a particular product service.

Market opportunity analysis (MOA) is the step-by-step process of defining, describing, and estimating the size and characteristics of each product-market of interest to a company, as well as the way and the extent to which each product-market is served by competition.

Market opportunity analysis can be used to investigate a potential market opportunity or better understand a market already served. A precise description of the size and characteristics of a target market can show how a firm's marketing approach can be improved.

Wendy's International entered a mature and competitive fast-food market in the 1970s. Firms such as Wendy's need three kinds of information about their market.

- *Market definition and customer profiles* provide market descriptions used by marketing management in evaluating market opportunities and designing marketing programs to serve target markets. For example, Wendy's end users (consumers of its services) represent a key population group: young adults over 25 years of age. This group had not received emphasis in the marketing efforts of McDonald's or Burger King. Customer profiles also include information on buyer perceptions, attitudes, shopping patterns, and so forth. Adopting a customer viewpoint of the marketplace is an essential basis for developing realistic strategies.
- *Market size estimation* builds on a clear definition of an organization's target market. Wendy's had to estimate how many prospective customers existed in various geographic markets, what share of each market it could capture, what the average dollar purchase would be, and what the repeat purchase rate would be.
- *Industry and competitor analysis* identifies probable trends and operating practices in the industry of which the firm is a part as well as the strengths and weaknesses of each key competitor. For Wendy's, the industry includes all national and regional fast-food chains. Industry analysis includes an investigation of how an industry is reaching its markets through its channels of distribution (e.g., manufacturer-wholesaler-retailer-customer). Competitor analysis concentrates on the key firms with which a company competes. Thus, McDonald's and Burger King represent competing firms, whereas Taco Bell is probably not a key competitor for the Wendy's target market.

Knowledge of markets and competitors is essential in designing and managing marketing strategy.

Marketing Strategy

Marketing cannot fulfill its managerial (or special) role unless customer needs and wants are understood satisfied. The development of an overall marketing strategy helps ensure that mutually beneficial exchanges occur (part of the definition of marketing). It is oriented toward the long run, comprised of fundamental decisions (not day-to-day adjustments), and developed with an eye to competition as well as markets. Developing marketing strategy includes deciding which customers to target and how to position products (and the organization) relative to competitors in the minds of existing and potential customers.

***Marketing strategy** is the set of guidelines and policies used for effectively matching marketing programs (products, prices, promotion, and distribution) with target market opportunities in order to achieve organizational objectives.*

Developing marketing programs involves identifying alternative combinations of marketing variables (for example, higher-quality, higher-priced hamburgers) and then judging how well these combinations match the market opportunity. The core of such matching is forecasting potential customer response to the mix of marketing variables. Then, the program with the greatest potential is implemented.

Let us consider the luxury car market. The guidelines and policies that constitute a strategy for the luxury car market must be oriented toward creating the highest quality image possible. They include:

- A high, narrow pricing range that conveys an image of price exclusiveness.
- New models that offer high technical quality, few repairs, and excellent warranty coverage.
- Advertising media and messages that impart an exclusive, high-quality image.

These illustrative guidelines and policies (marketing strategy) narrow the range of marketing actions that are appropriate given the overall marketing objectives (e.g., quality image). Basically, a marketing strategy outlines how marketing objectives will be achieved.

Target Market Selection. A target market may consist of all end users or one or more subgroups in a product-market. Making decisions about target markets is one of management's most important tasks. Wendy's decision to go after a subgroup of the population, young adults, with a particular service offering was a target market decision.

Strategic decisions involving target markets include:

- *Deciding whether to go after an entire product-market by using a mass-marketing approach or to concentrate marketing strategy on only a portion of the market.* The highly successful B. Dalton Bookseller subsidiary of Dayton-Hudson Corporation typically stocks 25,000 books per store and serves the mass market. Yet, its president says, "We think there is a new level of the market out there, made up, in part, of people intimidated by a full-selection bookstore."
- *Determining when to modify an existing target market strategy.* The top management of Sherwin-Williams decided to shift from the firm's traditional orientation as a paint store for contractors and to appeal instead to consumers. A completely redesigned marketing approach was implemented with home decorating centers that offer paints, floor and wall coverings, and related products.
- *Deciding to stop serving a particular target market.* Increasingly, managements are confronted by the question of whether to withdraw from a market. Maturing products, slow growth rates, competition, and environmental changes gradually alter the attractiveness of target markets.

Target market selection is guided by an organization's mission and objectives, so target market decisions must be properly positioned within this larger context and their strategic implications assessed. Once selected, the target market provides the focus for setting marketing objectives and designing the marketing program.

Marketing Objectives. Marketing objectives should be consistent with corporate objectives and should be stated for each target market in terms of sales, market share, profit contribution, and other qualitative aims, such as strengthening a brand image. Objectives are sometimes divided into two groups: market *performance* objectives and market *support* objectives. The former are specific outcomes such as sales and profits. The latter pertain to tasks that precede the final performance outcome and may include building customer awareness, engaging in educational efforts, and creating a brand image.

Objectives help shape the marketing mix for each target market. A firm seeking to increase sales in a target market by 6 percent for the coming year would probably make only limited changes in the existing marketing program. Alternatively, striving for a substantial sales increase, say 20 percent, could require major changes in the composition of the marketing program, including increases in the marketing budget for elements of the program (e.g., size of the sales force).

Objectives must, at least to some degree, be measurable; otherwise, identifying progress toward their achievement is impossible. In marketing, measurability is no easy order. A support objectives could include changing a brand image in the minds of potential customers--and progress toward that objective could be measured by surveying customer perceptions. This is often done. Objectives should be worded very carefully, with the intention of developing measurable and attainable *standards*. The following marketing performance and support objectives were used in a personal computer education business:

- To increase (over last year) the number of student/class hours by 36 percent.
- To increase class size to an average of 28 (despite a 6 percent price increase) and thereby to increase profits by 20 percent.
- To increase awareness of our services to at least 50 percent of our targeted customers.
- To develop over the next year three new class offerings, with high-quality instructors, to serve the personal computer user.
- To develop a targeted, systematic, and coordinated advertising program.

The first two objectives are oriented toward market performance, whereas the last three are market support objectives.

Marketing Program. A firm's marketing must consist of an integrated strategy aimed at providing customer satisfaction. To develop such a strategy, a firm uses demand-influencing variables that together constitute the marketing mix. The marketing mix, like a puzzle, has numerous pieces that must be appropriately combined for a successful end result (Exhibit 1-8): It includes the product (or service) offered by the firm, the distribution channels it uses (wholesalers, distributors, retailers) to make the product available to customers, the price it charges for the product, and promotion (advertising, personal selling, sales promotion and publicity). Other terms often used to describe the components of the marketing mix are the marketing program, the marketing offer, and the 4-Ps (product, place, price, and promotion). These variables must be consistent with one another, and ideally, they complement one another for a synergistic result. Building a quality, prestige product and combining it with inconsistent mix ingredients such as heavy price discounting would yield a poorly integrated, internally inconsistent marketing program. The mix ingredients would conflict with one another in the minds of customers.

The creative role that management must play in moving from knowledge of the market to the formulation of marketing programs is both a major challenge and an opportunity. Mallard's clothing specialty stores for men (Chicago) provide an excellent example of the development and implementation of an appropriate marketing mix for a firm's target market. Staring with one store in 1984, entrepreneur G. Phillip Kelly now has three stores and plans for rapid expansion. He offers updated versions of classic Ivy League and sportswear-oriented closing for men, which, because of its traditional styling, avoids quick outdating. The target market is ambitious and active career-oriented individuals, 25-45 year-old college graduates, mostly professionals, with above-average incomes. Yet Mallard's customers still value a good buy. The closing is mostly private label, obtained directly from high-quality producers. This departure from traditional industry practices enables the firm to offer reasonable prices for the quality it

Exhibit 1-8 Marketing Mix Variables

Product Features	Distribution Types of channels/middlemen	Price List price	Promotion Promotion blend
Quality Packaging Branding Services Guarantees Assortment	Store/distributor location Storage Transportation and logistics Service levels	Credit terms Discounts Allowances Flexibility	Advertising Media Copy Timing Personnel selling Selection and training Motivation Allocation Sales promotion Publicity

provides. The store locations project a quality image and are convenient for the targeted customers. The company engages in limited advertising, relying primarily on location, window displays, and a quality reputation to attract customers. All Mallard's techniques, fitting, garment care, fabrics, and styles, allowing them to deal with discriminating buyers. Retail clothing stores in general experience high failure rates, but it is clear that Mallard's offers an appealing blend of marketing mix elements.

Building a marketing program for a target market consists of determining how large the marketing budget should be, allocating the budget to the marketing mix variables of the firm and determining the best use of the resources for each marketing mix variable. Over time, organizations make many important decisions about the marketing mix, including:

1. The development of new products or services, the improvement of product, and the elimination of products.
2. The choice of channel intermediaries (agents, brokers, wholesalers, distributors, and retailers) or the use of direct distribution for reaching target markets.
3. The setting of pricing objectives and strategies that are consistent with the target markets and with the other elements of the marketing program.
4. The development of advertising, sales promotion, and publicity programs to accomplish the communication objectives assigned to the promotion function.
5. The formulation of personal selling goals; the determination of the type, number, and location of salespeople; and the adoption of policies for managing salespeople (such as compensation policies).

Given the myriad of possible marketing programs that could be developed and the difficulty of estimating the likely revenue and cost results of each alternative program, these are complex decisions. Management must determine the level and combination of marketing variables that will yield the most favorable profit contribution, net of marketing costs. *Estimating the responsiveness of target markets to alternative marketing mixes is perhaps the key uncertainty in all of marketing management.*

Finally, the terms *strategy* and *tactics* are often used in management discussions. Strategy (or strategic) decisions provide a broad, long-term framework (a year of usually more) for marketing action. They are fundamental decisions that guide day-to-day actions. Tactical decisions determine how marketing strategies are to be carried out on a day-to-day basis. For Mallard's, strategy included placing an emphasis on quality, private brands, and reasonable prices. The strategy of a company is implemented by day-to-day tactical decisions, such as setting the exact prices, deciding whether or not to include prices in advertising copy, deciding how frequently to offer sale prices and on which items, and opening new locations.

Figure 6.1
Management Audit

By: ______________________ Date: ______________

Based upon my analysis of the business, I believe that the operation is being run satisfactorily in the area of:

	Yes	No
I. Sales and Marketing		
A. Pricing		
Are prices in line with current industry practice?	____	____
Is your pricing policy based on your cost structure?	____	____
Have you conducted price sensitivity studies?	____	____
B. Market research		
Have you identified target markets?	____	____
Do you segment your markets?	____	____
Have you identified customer wants/needs?	____	____
Do you know how your markets perceive your products/services?	____	____
Has your business taken advantage of market potential?	____	____
Has the competition been analyzed?	____	____
C. Personal selling		
Are your sales practices satisfactory?	____	____
D. Customer service		
Is customer service a priority?	____	____
Is there a rational balance between serving your customers' needs and good business practice?	____	____
E. Advertising and public relations		
Do you select media for measurable results?	____	____
Is your advertising consistent?	____	____
Does your advertising budget make sense in terms of the level of business and its anticipated, planned growth?	____	____
F. Sales management		
Are salespersons and outside agents properly directed in their duties?	____	____
Do you establish individual sales goals?	____	____
Do you provide adequate sales support?	____	____
Are your salespersons trained?	____	____
G. Market planning		
Do you have a marketing budget?	____	____
Do you have a market plan?	____	____
Has your business taken advantage of market opportunities?	____	____

Figure 6.2
Good Management Scorecard

	Yes	No
We operate with an annual marketing plan which includes:		
A. Specific sales and profit goals, and timetables	______	______
B. Strategies and tactics for the next three years?	______	______
C. Budgets, forecasts, and benchmarks	______	______
D. A sales plan	______	______
Our marketing plan also includes:		
E. The demographics of our target markets	______	______
F. A thoughtful definition of the markets we serve	______	______
G. A definition of the needs/wants our products and services fill	______	______
H. An analysis of the growth of our markets	______	______
I. A competitive analysis	______	______
J. A definition of our "Unique Selling Proposition"	______	______
K. Projections for other products or services that could be developed	______	______
L. Timetables for research and development	______	______

Figure 6.3
Strengths and Weaknesses

By:____Date:______________________

List your business' strengths and weaknesses. Use Figures 6.1 and 6.2 as guides. Give very brief descriptions and categorize each as "internal" or "external" by checking the appropriate column.

	Internal	External
Strenths:		
1.		
2.		
3.		
4.		
5.		

Weaknesses:

	Internal	External
1.		
2.		
3.		
4.		
5.		

The Marketing Plan

Now you can assemble your marketing plan.

Your overriding marketing objective is to find people to buy enough of your products and services, for enough money, and often enough to ensure a solid profit margin. Your marketing plan helps keep your business focused on the steps necessary to reach or exceed your goals.

Your marketing plan should not be long. If it becomes much longer than twenty pages, it won't be used. Individual elements that back it up may be lengthy, however. An advertising/ promotional plan, for example, may run much longer. Sales plans for individual products, product lines, or services can become immensely detailed. (See Chapter Ten.)

The market plan must be succinct. It summarizes the analyses and strategies of the preceding eight chapters--so in one sense, you've already written it. Writing out your formal marketing plan gives you another chance to review your ideas and goals. If you haven't involved your staff in the planning process, this is a good time to get their ideas.

The key section of your marketing plan (Figure 9.2) is Section 7: How will you achieve these goals? You have four strategic variables to play with: Product/Service, Price, location, and Promotion. Each of these can be subdivided further (see Figure 9.1) and tailored to meet the wants of your target markets.

There is no mechanical method of grinding out how to reach your goals. Your judgement and experience have to find expression here. The most common reason that strategies fail is that the fundamentals of implementing the game plan are done poorly or not at all. It doesn't matter how good your strategy is if it isn't properly executed.

The strategic variables must be considered in light of your present and prospective target markets. In fact, all your marketing plans should focus on meeting the needs and wants of these markets.

Source: Bangs, Jr., David H. *The Marketing Planning Guide*. 1990. Chapter 1, 6, 9. Upstart Publishing Company, Inc. Reprinted and translated with permission.

Figure 9.1

Aspects of the Four Strategic Marketing Variables

Make sure the aspects of each variable that pertain to your business complement one another.

Product/Service:

- New, modified, new application
- Position on life cycle
  - Cash cow?
  - Rising star?
  - Dog?
  - Owner's ego?
- Benefits to purchaser
- Perceived value

Price:

- To end user
- To distributors and to trade
  - (What margins do you allow distributors and trade?)
- Image
- Market penetration
- Markets' sensitivity to price changes

Place:

- Location
- Signs
- Direct mail
- Direct sales
- Telemarketing

Promotion:

- Advertising (including Yellow Pages, classified adds, and so on)
- Public relations
- Trade shows
- Packaging
- Special promotions (sales, spotlights, etc.)
- Personal selling
- Sales force training
- Marketing support
- Image: point of purchase, layout, lighting, stocking
- Personal letters

Figure 9.2

Suggested Outline of Marketing Plan

1. **Mission statement**
   (What you want your business, main markets, and products/services to be.)

2. **Marketing objectives for next year and for the next three years**
   (These are the broad marketing objectives of Figure 1.5)

3. **Sales and profit goals for next year and the next three years**
   (See Figure 1.5.)

4. **Products/Services**
   (Brief description by product/service lines, including proposed changes and any recent changes that would affect marketing goals. See Figure 2.3.)

5. **Target markets**
   (List and briefly describe. See Figure 2.4.)

6. **Market potential**
   (What size are the markets and what potential sales, profit, or other advantages does each have? See Figure 3.6.)

7. **How will you achieve your goals?**
   A. Overall strategy (See Figure 8.4.)
   B. Competive strategies (See Figure 4.6.)
   C. Promotion strategies (See Figure 7.3.)
   D. Pricing, location, and sales practices (Brief statement of pricing strategy from Figure 5.3, plus brief statements about location, hours, and selling practices from Chapter Five if important or changed from normal patterns.)
   E. Marketing and advertising budgets

8. **Potential problems**
   (Brief description, plus proposed solutions, from Figure 8.1.)

9. **Implementation and measurement of timetables and benchmarks**
   (See Figure 10.2: Sales and Marketing Timetables.)

10. **Review and evaluation schedule**
    (Short schedule of important review dates.)

Appendix: Include supporting documents such as letters of intent, purchase agreements, and so forth if you think documentation is needed.

Strengths and Weaknesses

Your marketing strategy has to reflect the strengths and weaknesses of your business. This includes the competitive strengths and weaknesses noted in Chapter Four.

In a successful business, all important parts of running the business are covered adequately if not necessarily brilliantly. No major area can be left unattended. A management audit (See Figures 6.1 and 6.2) helps you gauge the quality of your management, spot areas where improvement is needed, land make sure that there are no glaring omissions to trip you up.

Your aim is to establish the right balance for your business. Your business is an assembly of systems, each of which has to work well for the whole business to be profitable. The audit helps make sure that your business has all its necessary parts, that they are all working together toward the same goals, and that the goals are suitable for the resources of your business.

Further, all parts should be the right size. A small business danger is letting one part outgrow the rest, which leads to an imbalanced allocation of resources. As you conduct your management audit, which should take only an hour or so to complete, keep balance in mind.

Any item which is checked "no" warrants your immediate attention, since it flags a weakness in your business. While a "yes" answer affirms that the area in question is at least covered, there could still be room for improvement. You may want to go over Figure 6.1 again looking for "yes" areas that you can improve on. Remember: Build on strengths, shore up weaknesses.

Source: Bangs, Jr., David H. *The Marketing Planning Guide.* 1990. Chapter 1, 6, 9. Upstart Publsihing Company, Inc. Reprinted with permission.

Figure 6.1
Management Audit

By: GL Date: 2/19/87

Based upon your analysis of the business, the operation is being run satisfactorily in the area of:

I. Sales and Marketing

	Yes	No
A. Pricing		
Are prices in line with current industry practice?	✓	
Is your pricing policy based on your cost structure?	✓	
Have you conducted price sensitivity studies?		✓
B. Market research		
Have you identified target markets?	✓ (some)	
Do you segment your markets?		✓
Have you identified customer wants/needs?		✓
Do you know how your markets perceive your products/services?		✓
Has your business taken advantage of market potential?	✓	
Has the competition been analyzed?	✓	
C. Personal selling		
Are your sales practices satisfactory?	✓	
D. Customer service		
Is customer service a priority?	✓	
Is there a rational balance between serving your customers' needs and good business practice?	✓ (most of the time)	
E. Advertising and public relations		
Do you select media for measurable results?	✓ (not always)	
Is your advertising consistent?		✓ (only in the Yellow Pages)
Does your advertising budget make sense in terms of the level of business and its anticipated, planned growth?		✓
F. Sales management		
Are salespersons and outside agents properly directed in their duties?	✓	
Do you establish individual sales goals?	✓	
Do you provide adequate sales support?		✓
Are your salespersons trained?		✓
G. Market planning		
Do you have a marketing budget?		✓
Do you have a market plan?		✓ (in progress)
Has your business taken advantage of market opportunities?		✓

II. Business Operations

	Yes	No
A. Purchasing		
Are reputable, competitive vendors used?		NA
Do you have a purchasing program?		NA

continued on next page

Figure 6.1
Management Audit *continued from previous page*

	Yes	No
B. Inventory control		
Do you know what your inventory turnover is?		
Is slow-moving stock managed?	NA	
Have you established rational reordering policies?		
C. Scheduling		
Do goods and materials move through the business without tie-ups and problems?	✓ (usually)	
Do you know how long each job should take?	✓	
D. Quality control		
Are inferior incoming materials returned to vendors?		
Are reject rates minimized?		
Do you have a "do-it-right-the-first-time" policy?	✓	
E. Business growth		
Has your business grown at least above the rate of inflation?	✓	
Have you met your asset growth, sales, and profit goals?	* We didn't have goals — We need them!	
F. Site location		
Do you have the right business location?	✓	
G. Insurance		
Do you have an annual insurance review?		✓
Are the proper risks to your business (and to yourself) covered?		✓
Do you put your insurance package out to bid every year?		✓
III. Financial		
A. Bookkeeping and accounting		
Are your books adequate?	✓	
Are records easy to come by?	✓	
Can you get information when you need it?	✓	
Do you have monthly Profit and Loss (Income) Statements?	✓	
Do you have annual financial statements?	✓	
B. Budgeting		
Do you use a cash flow budget?	✓	
Do you use deviation analysis monthly?	✓	
Are capital equipment purchases budgeted?	✓	
C. Cost control		
Are cost items managed?	✓	
Are high cost items treated separately?		
Is the budget used as the primary cost control tool?		✓
D. Raising money		
Have you been successful in raising capital when it was needed?	✓	

continued on next page

Figure 6.1
Management Audit *continued from previous page*

	Yes	No
E. Credit and collection		
Do you know your C&C costs?		✓
Is your current policy successful?		✓
Do you review C&C policies regularly?	✓	
Do you have a receivables management policy?	✓	
F. Dealing with banks		
Is your relationship with your lead banker open and friendly?	✓	
Do you have access to more than one source of financing?	✓	
G. Cost of money		
Do you compare the cost of money (interest, points) with your profit ratios?	✓	
Are interest rates and loan conditions appropriate?	✓	
H. Specific tools		
Do you know and use:		
1) Break-even analysis?	✓	
2) Cash flow projections and analysis?	✓	
3) Monthly Profit and Loss (Income) Statements?	✓	
4) Balance sheets?	✓	
5) Ratio analysis?	✓	
6) Industry operating ratios?	✓	
7) Tax planning?	✓	
IV. Personnel		
A. Hiring		
Has the right mix of people been hired?		✓
Do you hire from a pool of qualified applicants?	✓	
Do you maintain a file of qualified applicants?	✓	
B. Training		
Are your employees suitably trained for their jobs?	✓	
C. Motivating		
Do your employees appear to enjoy what they are doing?	✓ (not all the time)	
D. Enforcing policies		
Does there seem to be logic and order to what goes on in the business?	✓	
Are reviews and evaluations performed on schedule?		✓
E. Communicating		
Are people informed and brought in on decisions?	✓	
Do you create opportunities for employees to set their own goals?	✓	

continued on next page

Figure 6.1

Management Audit *continued from previous page*

	Yes	No
V. Administrative Management		
A. Record keeping		
Are records of past transactions and events easy to find?	✓	
Are records retained for at least the minimum legal time period?	✓	
Is access to personnel files limited?		✓
B. Problem solving		
Are there few unresolved problems?	✓	
C. Decision making		
Are you decisive?	✓	
Is there a chain of command?	✓	
D. Government regulations		
Are you aware of local, state, and federal regulations that affect your business?	✓	
E. Leadership		
Do you actually take charge of the business and its employees?	✓	
F. Developing subordinates		
If you were to die or suddenly become disabled, is there a ready successor?	✓	
G. Business law		
Do you have a working knowledge of applicable business law regarding contracts, agency, Uniform Commercial Code, and so on?	✓	
Do you know how current contracts and other legal obligations affect your business?	✓	
H. Dealing with professionals		
Do you have and use an accountant, attorney, and business consultant?	✓	
Do you use outside advisors?	✓	

Figure 6.2
Good Management Scorecard

	Yes	No
I. We operate with a complete and up-to-date business plan which includes:		
A. One-year and three-year projections		✓
B. A capital budget		✓
II. We operate with an annual marketing plan which includes:		
A. Specific sales and profit goals, and timetables	✓	
B. Strategies and tactics for the next three years		✓
C. Budgets, forecasts, and benchmarks	✓	
D. A sales plan	✓	
Our marketing plan also includes:		
E. The demographics of our target markets		✓
F. A thoughtful definition of the markets we serve	✓	
G. A definition of the needs/wants our products and services fill	✓	
H. An analysis of the growth potential of our markets	✓	
I. A competitive analysis		✓
J. A definition of our "Unique Selling Proposition"		✓
K. Projections for other products or services that could be developed	✓	
L. Timetables for research and development		✓
III. We use monthly budgets and statements which include:		
A. Thorough and up-to-date records	✓	
B. Cash flow budget	✓	
C. Profit and Loss (Income) Statement	✓	
D. Balance sheet	✓	
E. Deviation analysis	✓	
F. Ratio analysis	✓	
G. Standard cost comparisons		✓
H. Cash reconciliation	✓	
IV. We have developed an information base that allows us to:		
A. Keep track of new developments in the industry	✓	
B. Obtain and study key trade information	✓	
C. Understand what "state of the art" means in this business		✓
D. Provide customers with the best available information pertaining to our products and services	✓	
E. Keep all our employees adequately informed	✓	
V. I'm certain that the business is properly capitalized since I:		
A. Base capitalization on worst-case planning		✓
B. Have emergency funds (or access to them)		✓
C. Have discussed this with my banker		✓
VI. I understand the value of the business because I've made use of:		
A. Professional appraisers		✓
B. Present-value methods to evaluate terms		✓
C. Professional tax planning counsel		✓
D. Accurate, timely financial information	✓	

continued on next page

Figure 6.2
Good Management Scorecard *continued from previous page*

	Yes	No
VII. We strive to improve production, quality, and operations by:		
A. Keeping the plant in top condition		✓
B. Maintaining safe conditions	✓	
C. Establishing high standards	✓	
D. Standing behind our products/services	✓	
E. Not tolerating shoddy performance	✓	
F. Working for consistency	✓	
G. Using our company's "look" as a statement to our markets	✓	
VIII. Our personnel decisions are based on humane, carefully considered policies which include:		
A. Checklists to make sure objectives are clear		✓
B. Communication to make sure objectives are understood		✓
C. Written job descriptions		✓
D. Regular progress and performance evaluations		✓
E. Fair hiring practices	✓	
F. Fair wage scales	✓	
IX. As for my own managerial skills, I work hard to:		
A. Develop my problem-solving abilities	✓	
B. Always stay calm		✓
C. Be objective		✓
D. Avoid investments in my own ego	✓	
E. Listen to my employees	✓	
F. Plan changes in our course to minimize negative effects	✓	
G. Make decisions promptly	✓	
H. Always get the facts behind problems		✓
I. Accept my own limitations	✓	
J. Delegate tasks that can be done more efficiently by someone else	✓	
K. Analyze all available options		✓
L. Develop my reading/study habits	✓	
M. Improve my skills	✓	
N. Consider and evaluate risks	✓	
O. Be positive with customers, employees, and associates	✓	

Once more, "no" answers are red flags. "Yes" answers indicate acceptable levels, but may offer ideas for improved performance.

The next step is to relate your findings directly to your marketing plans. "No" answers to any item in Figure 6.1 or 6.2 are weaknesses that have to be acknowledged and dealt with. Those "yes" answers that identify areas of particular strength should also be noted; they are strengths to build on.

Your search for strengths and weaknesses goes further. Some areas of strength or weakness are outside your business. Others are internal, but are not captured in the checklists above.

If you can predict external weaknesses, you gain a major competitive advantage over the unprepared competitor.

Question 22: What is your business strong at?
Advantages may be things like a great product, skilled personnel, super location, close relationship with an ad agency, or outstanding technology. You want to find as many of these as possible to help you more sharply define your marketing niche.

External strengths include a number of factors you have little control over. For instance, your competition may be feeble, or your market expanding, or the local economy booming. These advantages tend to be temporary: No economy booms forever, markets have limits, and weak competition opens the doors for stronger competitors. Still, you want to be aware of and carefully monitor external advantages so you can benefit from them.

Question 23: What is your business weak at?
Samples of internal weaknesses include ineffective, untrained, or underutilized personnel, lack of sales support materials, frequent stockouts, poor quality, and undercapitalization. While some of these may have to be addressed from a company-wide point of view, some are essentially marketing problems. Do you have a marketing budget? If not, why not? Do you have sales training? If not, why not? Are sales support systems weak? Then strengthen them.

Your awareness and understanding of external problems and weaknesses help you handle them. Maybe you face new, aggressive competition, or the local economy is taking a nosedive, or your market is evaporating due to a new technology. You have to know what these larger forces are and how your business might respond to them. Maybe you can't control them, but you can control how your business reacts. If you can predict external weaknesses, you gain a major competitive advantage over the unprepared competitor. He or she gets swamped while you ride the wave.

List the strengths and weaknesses, both internal and external, that come to mind on Figure 6.3. Add those discovered in Figures 6.1 and 6.2. Then go out and look for more. This is an open-ended process which will become second nature. As you identify the strengths and weaknesses, ask yourself:

1. Can I change this circumstance?
2. Can I take advantage of or build on this?
3. If it is beyond my control, how does it or will it affect my business?
4. How long will these advantages and disadvantages last—and how can my business take advantage of these circumstances?

Figure 6.3
Strengths and Weaknesses

By: RH & GL Date: 2/19/87

List your business's strengths and weaknesses. Use Figures 6.1 and 6.2 as guides. Give very brief descriptions and categorize each as "internal" or "external" by checking the appropriate column.

	Internal	External
Strengths:		
1. Customer Service	✓	
2. Financial management	✓	
3. Bank relations	✓	✓
4. Quality of service	✓	
5.		
Weaknesses:		
1. Advertising & PR	✓	
2. Market planning	✓	
3. Pricing	maybe!	
4. Insurance	✓	
5. Capitalization	✓	

The final step in this process is to review Figure 6.3 and rank the strengths and weaknesses. Since they represent significant opportunities and problems, you want to work on the most important first.

Figure 6.4
Analysis of a Specific Strength or Weakness

Fill out one of these forms for each strength or weakness.

By: CL Date: 2/20/87

Describe the strength or weakness. Be as factual as possible.

Customer service is a strength. We provide tax news and other information in our newsletter. We always meet deadlines and are always accessible — not just from 9 to 5.

What are the probable results of this strength or weakness?

We have loyal clients and close customer relations.

What should I do to capitalize on or correct this?

Promote word-of-mouth PR in our ads. Also use endorsements. Perhaps we should use this approach to get our clients' help: "We have a problem and we need your help."

Set dates for implementation and review.

Within a month: we will talk to 5 clients and aim to get 20 referrals.

Summary for Chapter Six

1. Two management audits have been conducted (Figures 6.1 and 6.2) to discover internal strengths and weaknesses. After reviewing them, the more important strengths and weaknesses have been listed on Figure 6.3.
2. Other strengths and weaknesses have been considered, and added to Figure 6.3.
3. These were then ranked in order of importance, and some of them were singled out for immediate attention using Figure 6 4.
4. Strengths and weaknesses help you or hinder you according to your awareness of them. If you are not reaching your sales and marketing goals, or if you think the goals should be higher, review this chapter.

Customers and Prospects

Who wants your goods and services?

You can't know too much about your customers and prospects. This calls for marketing research. Facts and figures elevate your marketing plans from wishful thinking to purposeful action. There is no substitute for hard information.

Your hunches, based on experience and observation, are important. They simplify market research by defining limits and setting directions for further investigation.

Your hunches have to be substantiated.

But they have to be substantiated. Hunches have an irksome way of being half-truths, and half-truths can be disastrous. "I feel that there's a big market for this..." and "I have a hunch that we can double sales by..." are two of the most common pitfalls for small business owners. Put another way, small business owners. Put another way, small businesses aren't destroyed from outside by competitors or fate. Often, they self-destruct.

Figure 3.1
Marketing Research Samples

Marketing research provides answers to questions like:

1. Who are your best customers and prospects?
2. How does the 80/20 rule (that 80 percent of your profits come from 20 percent of your customers) affect you?
3. How do your customers perceive your products/services?
4. What do they want from a business like yours?
5. How can you profitably satisfy their needs and wants?
6. What's the potential of this market?
7. Should you market goods, services, or both?
8. What do your customers read, watch, listen to?

Source: Bangs, Jr., David H. *The Market Planning Guide*. 1990. Chapter 1, 6, 9. Upstart Publsihing Company, Inc. Reprinted and translated with permission.

You have to know how your target markets perceive the value of your products/services to make good marketing decisions. If you don't know how your company and its products/services are perceived, you will waste time and aim the wrong products at the wrong markets at the wrong time.

Professional marketing consultants can get this information faster and more cheaply than you can. If your budget is tight, check with local business schools. Marketing professionals sometimes do consulting work. Since most basic market research questions are the same, this saves you from reinventing the wheel. It should cost you no more than other out-of-pocket expenses. Marketing consultants know the questions to ask and how to get the answers. They will put this information to work, ferreting out better opportunities for you to pursue. This is an added bonus for your marketing-research investment.

Your aim is to categorize your current customers as prime, good, and others.

Figure 3.2
Basic Marketing Research Questions

These are a few questions that basic market research will help you answer.

Information about the buyer:
- Age?
- Annual income?
- Gender?
- Ethnic group?
- Profession or occupation?
- Owner of a home?
- Media preferred?

Information about the competition:
- Market share?
- Advertising plan?
- Price strategies?
- Distribution?
- Length of time in business?

Information about the product:
- Benefits?
- Price?
- Service?
- Design specifics?
- Where sold?
- Packaging?
- How will it be used?
- How many bought in a year?
- What to improve?

Question 10: Who are your current customers?
You can't specify target markets, segment the markets, or otherwise improve your marketing abilities without detailed knowledge about your current customers.

Suppose your market is limited to punk rock fans. What will you do when the next fad hits? Grow up with your market and change with them? Or cater to the tastes of adolescents forever?

If you sell to industrial companies, who are they? What are their sales levels and geographical distribution? Who makes the buying decision? What market segment buys which products—and what information can these people give you?

If you sell to individual consumers, what are they like? What are the demographics of the market? What are the people's age, gender, income, stage in the life cycle, education level?

Market segmentation is a method of organizing and categorizing those persons or organizations which you think will buy your products. Look at your customers and note their salient characteristics, then look to wider markets for more groups of people with the same (or similar) characteristics. The usual route is to begin with a fuzzy concept, seek out more detailed information to help define some rough market segments, then refine these into better defined target markets. This can be entertaining as well as highly rewarding.

The ingenuity of market research professionals is noteworthy. As an example, a research technique called VALS (for Value and Life-Style Study) was developed by the Stanford Research Institute and helped Manufacturers Hanover Trust Company in New York identify six psychographic groups within one demographic segment—the "baby boomers." (Psychographics, a valuable market analysis tool, examines the life-styles and values of various market segments to determine how consumers think and what motivates them.) The upshot was a successful marketing campaign that used only one slogan, "We realize your potential," to appeal to the six different mindsets. You might be able to benefit from describing your customers and hot prospects using the segmentation criteria in Figure 3.3 on the next page.

Put these to work for you. Figure 3.4: Market Segmentation Worksheet may be helpful. You will probably find that you sell most profitably to certain segments and very poorly to others, which should influence your planning. Think of the old 80/20 rule: 80% of your profits come from 20% of your customers. If you can get a good handle on who that profitable 20% is and who the unprofitable 80% is, you will prosper.

Figure 3.3

Some Market Segmentation Criteria

Use these categories as criteria to describe your customer base Look for clusters of people described by these criteria to help direct further marketing efforts.

Demographic:
- Age
- Gender
- Income level
- Occupation
- Religion
- Race/ethnic group
- Education
- Social class

Geographic:
- Country
- Region
- State
- County
- City/town
- Size of population
- Climate
- Population density

Psychographic:
- Leader or follower
- Extrovert or introvert
- Achievement-oriented or content with the status quo
- Independent or dependent
- Conservative or liberal
- Traditional or experimental
- Societally-conscious or self-centered

Consumer/Behavioral:
- Rate of usage
- Benefits sought
- Method of usage
- Frequency of usage
- Frequency of purchase

Business Markets:
- Type of business (manufacturer, retail, wholesale, service)
- Standard Industrial Classification (SIC) Code
- Size of business
- Financial strength
- Number of employees
- Location
- Structure
- Sales level
- Special requirements
- Distribution patterns

Who buys what, when, where, and why are key pieces of marketing information.

Figure 3.4
Market Segmentation Worksheet

Fill out one of these forms for each of your products/services.

By: GL   Date: 2/10/87

Product/service: All accounting services we offer

Describe your "ideal customers" according to the criteria listed in Figures 3.2 and 3.3. Entrepreneurs in their late 30s to early 50s; owners of retail, service or manufacturing firms with sales of $700,000 to $5,000,000.

Describe their purchasing patterns. When they are aware of their need. They want aggressive and innovative solutions to their problems — they don't have time to research solutions themselves. Often, they need special work performed.

What makes them "ideal customers" for this product/service?

They have good ideas and want them implemented. Also, they can pay our $5,000 annual fee.

Question 11: What are their buying habits?

Who buys what, when, where, and why are key pieces of marketing information. If you determine nothing more than the answers to these questions, you will be miles ahead of most of your competitors.

Gather the following basic information on each product, product line, or service you offer:

- Who makes the buying decision?
- What's the size of the sale in dollars?
- How many units are sold?
- What is your cost per sale?
- What do your customers buy?
- When do they buy it?
- Is their purchase seasonal?
- Why do they buy it?
- Where do they make the buying decision?
- How do they finance their purchase?

How do your customers view your products and services? This is a research and development question. If you can define your products from your customers' point of view, you can discover new ways to market your products/services, new target markets, new profitability. For instance, if a customer asks for a refinement of a standard product in your line, can you redesign and repackage that product for other people?

The key marketing point: People buy solutions to problems.

Reworking your basic products and services to fit customer demands can be a powerful marketing tool. Here are some examples:

1. Blister packaging of foods and medicines after the first Tylenol scare.
2. The ongoing simplification of microcomputers. The current generation of "user-friendly" computers is geared to people unfamiliar with computers.
3. Overnight package delivery. Federal Express spotted a market for overnight small package and letter delivery. It was always there; they just were the first to spot it. Their competitors are still playing catch-up.
4. Cash management accounts. They opened huge markets for Merrill Lynch and should have been developed by the banking industry. However, the bankers just didn't notice that their customers' problems juggling various banking and brokerage accounts had created a mammoth opportunity.

The key marketing point: People buy solutions to problems. They buy satisfaction of their wants and needs. They don't buy products and services. If your customers have complaints, find out why. What's their problem? How can your company help them solve that problem?

Question 12: Why do your customers buy your goods/services?
Answer this one correctly and become rich and famous.

How can you find out why people buy from you? Ask them. (Figure 3.5 on the next page is a survey R.C. Montville and Company, CPAs, used for their clients. A generic version of Figure 3.5 appears in Appendix Three.) It helps if you give your customers a structure. This is an area where a professionally developed survey pays off. Call your local SBA office and ask for the nearest Small Business Institute program. Check with local colleges—a customer survey is one of those projects that costs you little and gains you a lot.

When you do a survey make sure to get answers to these three basic questions:

1. Where did you hear of our store/product/service?
2. What would you like us to offer?
3. How can we better serve you?

In Figure 2.4, you matched products with the needs and wants they fulfill. Now put those insights to work. Who has these needs and wants? Which of your target markets can you satisfy profitably? Maybe you can reposition some of your products to appeal to these markets. Maybe you will have to change the product/service mix.

The important thing to keep in mind is that people won't buy goods and services they don't want, no matter how good the advertising and positioning. You can only sell them what they want to buy. Sometimes that will be what they need. But it will very seldom be what you think you are selling.

Some examples: You think you sell a medical service. Your customers think they are buying a solution to a problem, a friendly ear, an antidote to fear. Helena Rubenstein was widely quoted as saying she didn't sell perfume, she sold hope. Detroit sells transportation, not cars. Hollywood sells entertainment, not movies.

More examples: If you sell to bureaucrats, remember that their number one concern is to be safe. If you sell to teenagers, remember they need to be in step with their peers. If you sell to a local retail customer base, remember that they buy convenience, safety, cleanliness, and courtesy along with your groceries or dry goods.

Apply this way of thinking to your business. What emotional needs or wants do your products satisfy? What other benefits do they provide? Then match those benefits to your target markets.

How can you determine your market's needs and wants? Ask them. Observe them. Read—trade magazines are full of articles about why people buy, and what triggers their purchasing decisions. Attend trade seminars. Talk with other business owners and managers. Above all, ask your customers.

Figure 3.5

R.C. Montville and Company's Client Survey

To our valued clients:

Please take a few minutes to complete this short questionnaire. Our aim is to give you the service you need, want and deserve. Your honest answers to these questions can help us serve you better.

1. How would you rate the quality of work we have performed for you in the past?

   Excellent ____ Good ____ Fair ____ Poor ____

   1A. If not excellent, please explain.

   ____

   ____

2. How would you rate the timeliness of the work we perform for you?

   Excellent ____ Good ____ Fair ____ Poor ____

   2A. If not excellent, please explain.

   ____

   ____

3. What service would you like us to perform for you that we do not offer?

   ____

   ____

4. Please feel free to give us any constructive criticism you feel we could use.

   ____

   ____

5. We plan to begin a seminar series in the not too distant future. What areas would you like to see covered in these seminars?

   ____

   ____

   5A. How interested would you be in attending our seminars?

   Very ____ Somewhat ____ Little ____ Not at all ____

Remember why you're in business: to create customers and satisfy them, at an acceptable profit.

Question 13: Who are your best customers and prospects?
Use a straightforward approach: Match the information about the most profitable products with the market segments that purchase those products. If you can figure out why they made these purchases and can find other groups in sufficient numbers with similar characteristics, then these new groups become your best prospects. With luck, they will turn into your best customers.

This is an endless process. Your target markets change over time; your product lines and mix change; your business changes.

But the basic process remains constant:

1. Identify your profitable products/services, including the "rising stars."
2. Find out as much as you can about the people who buy those products/services. Who are they? What are their buying patterns? How often do they buy? How much do they spend? What offers do they respond to?
3. Find other people like them. These are your hot prospects.
4. Identify unprofitable products/services, including the "dogs" and "owner's ego."
5. Find out who buys these products/services—and stop marketing to them, or switch them to more profitable products. This may mean leaving a comfortable market for a profitable one. Remember why you're in business: to create customers and satisfy them, at an acceptable profit.

Question 14: What is your market share?
Market share is the percentage share of total sales to a given market. For example, if you sell $225,000 worth of medical services annually to a market which buys $1,000,000 worth of that particular service a year, you'd have a 22.5% market share. Market share can be measured in unit sales: 225,000 units out of a total market of 1,000,000 units. Or in purchasing units: 225,000 people out of the total market of 1,000,000 buy your product.

Note that market share presupposes knowledge of the total size of the market, which depends in turn on how you define your target market.

Market share information helps you decide whether to enter, abandon, invade, or protect a market niche. As a rule of thumb, a 25% market share is dominant and makes you a major player in that market. If you can identify a market niche large enough for profitability, yet small enough to be unattractive to big businesses, and grab 25% of that market, you have a winner. On the other hand, if your archrival has 50% of that market, there might not be room for both of you.

Question 14A: Is your market share growing, shrinking, or stable?
Question 14B: Is the market growing, shrinking, or stable? Is it changing in other ways?
A declining market may be a good one to bail out of, or may present a terrific niche possibility. A growing market may be an opportunity for you to develop a growing niche. It could also present an enticing market to a large company which could swamp the market.

Market-share information is one of many factors involved in these kinds of strategic choices. You have to use your judgment. And remember that judgment based on facts beats guesswork.

Judgment based on facts beats guess-work.

Summary for Chapter Three

1. You have segmented your customer base (Figure 3.4).
2. You know (based on your research) why these people buy your products/services, and what needs or wants they satisfy.
3. This helps you form a clear, easily communicated description of the target markets to which you can market effectively.
4. You can now set realistic target market objectives to include in your marketing plan, including the size of your markets, your market share goals, and other precise measures of performance. Fill out Figure 3.6.

Sample objectives might be to enter some niches, to try to attract certain market segments while dropping efforts to attract others, or to work on certain product lines that sell to current customers. You have to remember your own business situation and that these objectives are based on facts and analysis, not wishful thinking.

Figure 3.6
Customer/Prospect Summary Form

By: GL Date: 2/10/87

Reviewed by: ____________ Date: ____________

These are our most valuable customers and prospects, ranked from the top:
(Make sure you list the market segments and their criteria.)

	Name of Customer	Market Segment	Criteria (See Figure 3.3)
1.	ABC Co.	40s, affluent, manufacturers, aggressive	
2.	DEF Co.	40s, wealthy, service, aggressive	
3.	GHI Co.	40s, wealthy, manufacturers, aggressive	
4.			
5.			

We should target these prospects:

	Name of Prospect	Market Segment	Criteria (See Figure 3.3)
1.	XYZ Body Shop	auto	Sales of $700,000+/year;
2.	JML's Tires	auto	in business for at
3.	Granite State Dodge	auto	least 5 years
4.			
5.			

We should consider these market niches:

1. Manufacturers of microwave components
2. Sporting goods retailers
3. Consultants and consulting companies
4.
5.

Our customer/prospect objectives for the next year are:

1. Penetrate auto-related markets
2. Upgrade prospects/customers to $1,000,000 sales
3. Focus! Focus! Focus!!

Products and Services

If you are already in business, you already have products/services, markets, and problems. If you are about to begin a business, you probably have a clear idea of what, where, when, and to whom you will be selling.

People buy solutions to their problems and satisfaction for their wants and needs.

The leading theoretical approach to marketing demands that you first determine what your markets want, then provide a way to satisfy them profitably. That's fine if you have the luxury of choosing your target market and product/service mix. Most of us, though, are limited by our experience and interests, to say nothing of other limitations such as money, family obligations, and so forth.

What can you do if you are already in business? Make haste slowly. Change gradually to a marketing orientation. Understand your target markets in depth, and measure the products/services you offer against the demands of those markets. You can change product and service lines over time to meet the changing demands of your customers and prospects. But you can't suddenly switch--it takes planning and time.

There are powerful constraints on the kinds of products and services you can offer: money, time, customer habits, competition, and technology are a few. Creating demand for a new product and changing consumer buying habits is close to impossible. Introducing a new technology can bankrupt you. The number of truly innovative products or services introduced each year is tiny, and beyond the scope of this book.

Most products and services offered by small businesses are generic. While you may think that your products and services are special, that perception is not necessarily shared by your market.

To gain a competitive advantage, do two things:

1. Know your products/services better than the competition knows theirs.
2. Know the benefits of your products/services from your customers' perspective.

Source: Bangs, Jr., David H. *The Marketing Planning Guide*. 1990. Upstart Publishing Company, Inc. Reprinted and translated with permission.

Understand the benefits your customers can get from your products or services. Look at your business from their point of view: Without a strong reason to think otherwise, one hardware store is like another; lawyers are interchangeable; seafood markets are where you buy fish What's so special about your screwdrivers, or your wills, or your halibut?

People buy benefits. What they want is not necessarily what you think you are selling. They buy solutions to their problems. They buy satisfaction of needs and wants. The solutions and satisfactions are the benefits they buy along with your products/services.

The more reasons to buy you can communicate to your target markets the better.

Question 7: What are the benefits of your products/services?
A careful product/service line analysis goes beyond a list of what you currently sell, and far beyond product knowledge. Not that these are unimportant pieces of information—in fact, that's where product/service line analysis begins.

1. *List the products/services you currently sell.* (Go back and refer to Figure 1.2.) You may want to reorganize or recategorize them, or add to your list. Enter the products or services on Figure 2.4.

Before you can match up products/services and markets, you have to form a clear idea of what needs and wants those products and services satisfy. Any product or service can satisfy a number of wants and needs. While people don't always know why they buy what they buy, you can draw some useful conclusions by observing and inquiring.

Think of several applications for each product or service, and several sets of wants and needs they satisfy. By communicating this to your target markets, you greatly increase the market appeal of those products and services. The more reasons to buy you can communicate to your target markets the better.

2. *For each product or service, ask: What is its purpose?* What needs or wants does it satisfy for your customers? For your prospects? Jot down the most obvious needs and wants each product or service satisfies on Figure 2.4. This will give you a better understanding of the markets you can reasonably target and provide the underpinnings of your marketing strategy.

What kinds of wants and needs should you consider in Figure 2.4? Marketing gurus have listed thousands. A handful are offered in Figure 2.1.

3. *For each product or service, ask: Is it a breadwinner now, or will it be in the future? Is it past its prime? Should it be continued? Or given more support (financial, personnel, promotion)?* You want to put your resources to work where they'll have the best long-term payoff.

4. *Should you expand your current product/service lines?* Sometimes sales of one product reveal customer needs for another. If a significant number of your customers ask for a product that would be an extension of your current lines, the risk of extending your product lines may be worth taking. It takes less effort to cross-sell to your old customers than it does to create new customers.

Ask product-line questions quarterly. We get so attached to the old product line that we forget to update it. Meanwhile the market moves away.

5. *What are the particular advantages/disadvantages of each product or service as compared with competitive products and services?* Product/service comparisons tip you off to competitive positioning. In chapter four, "Competitive Analysis," further marketing comparisons will help keep you ahead of the competition. For now, take special note of differences in target markets and benefits advertised.

Figure 2.1
Why Do People Buy Things?

Even though individuals ultimately make all purchasing decisions, their approaches will differ depending on whether they are buying for themselves or buying for their company or institution. Several ways of looking at buyer wants and needs are shown here.

Basis for wanting things:
1. To fill biological needs
2. To gain security
3. To get status
4. To gain recognition
5. To satisfy aggressions
6. To satisfy sensibilities
7. To lessen anxiety
8. To save time

Some buyer motivations:
1. Satisfaction of the senses
2. Imitation of other people
3. Stylishness
4. Profit
5. Convenience
6. Knowledge
7. Comfort
8. Fear
9. Pride
10. Curiosity
11. Pleasure
12. Self expression or self-actualization
13. Gaining an advantage
14. Saving money

For institutional markets, important motivations to buy include:
1. Dependability
2. Discounts for bulk orders
3. Price and quality
4. Relationship with current vendors
5. Customization
6. Market exclusivity
7. Value
8. Delivery schedules
9. Guarantees
10. Safety for the purchasing agent ("You don't get in trouble buying IBM..." attitude is a good example of bureaucratic thinking. The IBM choice isn't necessarily the best, but it's viewed as defensible.)

Figure 2.2
Product Comparison Form

Fill this out for each product or service you offer. For the sake of simplicity, compare yours only to the leading competitive products or services.

Product/Service: All of our accounting services

	Yours:	The Competition's:
Target markets:	Mfg. service and retail cos w/ sales of $700,000 to $3,000,000	Large corporations & their executives; some small businesses
Benefits offered:		
1.	Aggressive sales approach	Passive sales approach
2.	Timely service →	
3.	Use of computers →	
Quality	Very good →	
Price	On the low side	Higher fees
Improved versions		
Location	Convenient — will visit client when necessary →	
Delivery	Meet client's deadlines →	
Follow-up service	Excellent	Good
Availability	Very good	Good
Convenience		
Reliability	Good →	
Service	Excellent	Depends how big account is
Guarantees	No satisfaction, no charge	?
Other (specify):		
1.	Experience with small business owners	Not as much experience with this market
2.	Creative approach to solving clients' problems	Defensive approach
3.		

Target market and benefit differences are important pieces of information for your marketing plans.

Comparisons are another place you may discover new applications, new product ideas, and new opportunities. Look outside your business. Maybe the competition has a wider line, or a more specialized line. Would this make sense for your business? Maybe their packaging is better, or their distribution or delivery system is superior. Perhaps their advertising is stronger. Adapt Figure 2.2 to compare product mix, product lines, or other areas where you might be able to gain a competitive edge.

6. *Have you made improvements in your products or services lately? Are you planning any?* You don't want your products and services to become stale or old hat, or be made obsolete by your competitors' changes. This is more than a question of style or fads. "New! Improved!" is a great marketing line, especially if the product or service is really new and improved. Improvements are a powerful positioning tool: Who doesn't want the improved model?

7. *What new products and services are you planning?* Should you develop new ones? Fill out a product line? Meet competition? Or should you prune back your product line to the most profitable elements?

One of the most powerful marketing strategies for small businesses is to locate and dominate market niches too small or too specialized for bigger companies to profitably invade. Quite often this calls for new products or highly specialized sets of skills. However, any new product or service cries out for strong marketing justification. Otherwise, it's all too easy to squander your resources on exciting but unprofitable new ventures.

8. *What are possible substitutes for your goods or services?* Are there any new developments (technological, social, economic) that might result in new ways of satisfying your market's wants and needs?

Not all dangers and opportunities are obvious. The only way to keep abreast of what might affect your business is to read, attend trade or other business shows, and keep your eyes and ears open. Your chances of picking up on an opportunity are far greater than your competitors' if you periodically review and analyze your product and service lines.

9. *Can you list at least five new applications for your products/services?* Repackaged products or new applications of old products open up new marketing opportunities. For the product grid (Figure 2.7), think of new applications as new products.

Huge marketing gains have come from new applications of old products and services. You can sometimes repackage or reposition a product or service to appeal to a wider market, or to deepen penetration of your current markets. A classic example of repackaging is Arm and Hammer baking soda. It sells more widely as a refrigerator cleaner and air freshener than it ever did as a baking soda.

Ask questions. Ask your customers, suppliers, sales force, and other interested persons what your products and services might be used for. Their answers might provide new applications that result in tomorrow's sales.

Your aim is to develop an image of offering something special.

Use the answers and ideas you generate to fill out Figure 2.3 for each product or service.

Figure 2.3
Product/Service Application Worksheet

Product/Service: Accounting and management advisory services.

What are its features? Preparing tax returns & financial statements. analyzing cash flow and balance sheets; making recommendations

What benefits does it produce? Helps business owner save money and use his/her financial resources better.

How is it used? When client needs help solving problems.

How is it purchased (unit, bulk, with other products)? Which other products? With other services, usually a result of doing client's tax return.

What are other possible applications of this product/service? Could apply to personal financial planning for business owners — we could offer appropriate services.

Use these ideas to rethink how your products might be marketed. As an example, basketballs are used as float valves in some industrial applications. Their features of toughness, uniform size and quality, roundness, and buoyancy make them ideal for this purpose.

Now put the two concepts together: What wants and needs do your products fill? Who might have these wants and needs?

Question 8: What is special about your products/services?
What is the "unique selling proposition" for your product and service lines? For each product and service? Is it quality? Price? Convenience? Style? Professionalism? What sets your products and services apart from the rest? The information gathered in Figure 2.2 helps you determine the unique selling proposition of your products.

Your aim is to develop an image of offering something special. Your neighborhood convenience store has a unique selling proposition: You can get a loaf of bread or a jar of mayonnaise at any time without getting in your car. Look at competing businesses and ask what's special about them. Can those insights help you position and define your business? Every business has something special to recommend it. What's your claim?

You may want to stress quality, or dominate your market through price competition.

Figure 2.4
Product/Service Benefits and Markets

Your Product/Service	Benefits It Offers (Wants/Needs Fulfilled)	Possible Target Markets
1. Business consulting	Solves business owner's problems	Retail,
2. Monthly accounting	Keeps books up-to-date	manufacturing and
3. Audits	Keeps clients from worrying; saves $$	service firms with
4. Tax return preparation	Tax return is done correctly	sales of $700,000
5. Tax consultation/representation	Keeps clients from worrying; saves $$	to $5,000,000
6. Special projects	Fulfills that client's specific need	
7. Other accounting services	Client can have whatever is needed	
8.		
9.		
10.		

Some ways to set your products apart from the competition:

1. *New, improved.* Matthew's Teak Cleaner took a messy, dangerous, splattery process and simplified it. Lotus took spreadsheets for microcomputers a step further than the competition and dominated the market for business software.

2. *Packaging.* Think that L'Eggs' profit comes from a superior stocking? Think again.

3. *Pricing.* BIC grabbed the ballpoint pen market with their 19-cent pen. On the other hand, lack of courage in pricing is a major weakness for small business. A Cadillac costs only $500 more to manufacture than a Pontiac; the price differential is thousands of dollars. Price and image march together.

4. *Advertising* and *promotion.* What really is the difference between McDonald's and Burger King? Or think of Frank Perdue and his chickens. Chicken is chicken is chicken, or was until Frank Perdue changed our perceptions of a commodity and differentiated his product from everyone else's. You pay more for a Perdue chicken, too.

5. *Delivery.* Retail stores all over the world are being hurt by direct marketing. It's the fastest growing retail segment. Land's End, L.L. Bean, Frederick's of Hollywood, and hundreds of other merchants let you shop at home, and will quickly deliver their products to your door.

6. *Convenience.* Look at direct marketing again. Or check out your local Seven-Eleven Store. Many banks are now open for more convenient hours due to the press of competition. A bank that opens Saturday morning has a big advantage over a bank that doesn't.

7. *Follow-up service.* After-sale efforts are strong product/service differentiators. Wherever you live, Sears will service your washing machine. Today. That's a deliberate policy—and sharply contrasts with discount stores. Both after-sale service and price chopping are valid marketing strategies. But Sears makes more money in the long run by stressing service, not price. A medical practice that routinely involves its patients in their own health care by sending reminders will lose fewer customers than one that saves money by not keeping in touch.

Question 9: What product/service is the best contributor to your overhead and profits (O & P)? What product/service is the biggest drain on your overhead and profits?
This is a simple accounting question. If you can not tell quickly which product/service you sell makes the most money (net of all expenses, including marketing and sales costs, bad debts, and so forth), then you better have a talk with your accountant. This is important information with direct marketing implications: Where do you make money? Where do you lose money? How can you do more of the former and less of the latter—i.e., can you ride your strong products more? Cull the losers? Who buys the good products? Who buys the "bad" ones?

Figure 2.5
Winners and Losers

Products/services with major impact on O & P:

Contributors:	Amounts:
1. Business consulting	$ 30,000
2. Monthly accounting services	30,000
3. Audits	20,000
4. Tax consultation & representation	25,000
5. Special projects	20,000

Detractors:	Amounts:
1. Individuals' Tax returns	$ 2,000
2.	
3.	
4.	
5.	

Know what your products and services contribute to or take away from your business.

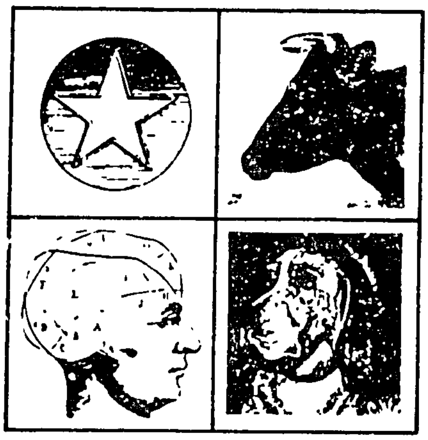
Label your products and services as cash cows, dogs, rising stars, and owner's ego. Cash cows are products that give you a good profit for very little effort. Dogs are money losers. Rising stars are tomorrow's cash cows. And owner's ego products or services are tomorrow's dogs, unless they fit in with wider company objectives.

For now, keep it simple. What products and services make money for you? What products or services don't?

There may be excellent reasons to lose money for a while: gaining market share, acquiring mastery of a new technology or learning new skills, building today for tomorrow's profit. So a current loser is not necessarily either a dog or owner's ego. Nor is a current winner necessarily good. You may be missing out on tomorrow's markets by sticking with a product too long.

The important point: Know what your products and services contribute or take away from your business.

Figure 2.6
Product/Service Matrix



The last piece of the product/service puzzle is to look at the Product/Service Grid, Figure 2.7. Where do your leading products and services fall on this grid? Your aim is to increase sales and profits. There are four basic ways to do this.

Figure 2.7
Product/Service Grid

	Core Markets	New Target Markets
P	Old product/service	Old product/service
R	old customers	new customers
O	(lowest risk)	(risky)
D		
U	New product/service	New product/service
C	old customers	new customers
T	(risky)	(riskiest)

Selling new products to new customers is as risky as starting a new business.

Ask yourself how you could sell old products to new customers, or new products to old customers, before even considering selling new products to new customers. Increasing sales of old products to old customers is normally the safest way to increase sales, but may not provide a sufficiently large gain. Selling new products to new customers is as risky as starting a new business—perhaps riskier, because it can sap your energy at the expense of your current business.

All of this leads to Figure 2.8: New Product/Service Objectives. If you decide to make product or service changes, or want to provide new goodies for your target markets to purchase, treat these changes as seriously as any other major change in your business. Set objectives, including costs, deadlines, and responsibility. Implement changes carefully and systematically. Don't leave them to chance.

Use all the information gathered so far to flesh out the form. Consider improved or changed products and services to be new products or services.

Figure 2.8
New Product/Service Objectives

Person responsible: RCH Review date: 2/8/87

Product/service idea: Business management consulting

Benefits it will offer: Increased profits, financial strategy improvement, depth of our experience

Target markets: Automobile dealerships, body shops

Timing: 12 months

Anticipated sales: ($ or unit; by quarter) $5,000/year minimum fee

Anticipated costs:

1. Development $5,000 to $8,000
2. Advertising Direct mail, Telemarketing $2,000 to $3,000
3. Impact on other products/services Will augment client base
4. Other (specify)

Comments:

Action taken:

By: Date:

Don't hurry with any product change. Let the idea stew for a while. Discuss it. Play the devil's advocate. New products have hidden costs that are difficult to foresee, and seldom pay off as well or as fast as you hope.

Summary for Chapter Two

1. You looked at your products and services and noted the benefits they offer and the target markets who seek those benefits. Keep a copy of Figure 2.4 for reference. Update it as needed.
2. You compared your products and services to those offered by your leading competitors to determine differences and gain preliminary ideas on how to differentiate your business from theirs. Figure 2.2 will help you determine the unique selling proposition of each product or service, which will be used in setting advertising directions.
3. You looked at each major product and service to find new applications (and new target markets). Figure 2.3 is a piece of the competitive analysis puzzle, as well as a source of new product line or product mix ideas.
4. Risk analysis entered the picture in Figures 2.6 and 2.7.
5. You found competitive strengths and weaknesses in what you market. You will use this in Chapter Six to help define your competitive position.
6. You outlined new product and service objectives in Figure 2.8. You may have to work these into your sales and profit goals. New products cast long shadows.

Figure 2.9

A Summary of Your Product/Service Goals

	Sales Goals (for each quarter of next year, in dollars or in units)				
Product/Service:	I	II	III	IV	TOTAL
1. Business consulting	10,000	10,000	10,000	10,000	40,000
2. Monthly accounting	10,000	10,000	10,000	10,000	40,000
3. Audits	7,500	7,500	7,500	7,500	30,000
4. Tax return prep.	20,000	3,500	5,000	3,500	30,000
5. Tax consultation & representation	7,500	7,500	7,500	7,500	30,000
6. Special Projects	7,500	7,500	7,500	7,500	30,000
7. Other accounting services	6,250	6,250	6,250	6,250	25,000

MARKETING WORKSHEET

My target market(s) or market segment(s) are —

1.

2.

3.

4.

My marketing objectives (for one market) for (time) ________ are —

1.

2.

3.

4.

My existing marketing mix/program is (for one market) —

Services/Products:

Distribution:

Pricing:

Promotion:

Marketing Overview

The sole purpose of your business is to create customers.

Technological excellence, delivery capability, service skills, pricing theory, and product perfection will, at best, gain you nothing if you can't create customers.

"Marketing" is the complex process of creating customers for your products/services. A marketing plan is a written document which helps you manage this process — including the action steps needed to make the plan work.

Your marketing plan calls for thoughtful answers to 30 major questions. These questions are highlighted throughout the text of *The Market Planning Guide*. A complete list of these major questions is provided in Appendix One.

Writing the plan is easy. You don't write the plan itself until you've done 95% of the work. The tough part of market planning is a careful analysis of:

1. Your product/service;
2. Your markets and your position in those markets; and
3. Your business' strengths and weaknesses.

Planning cannot be done in a vacuum. The first step is to take a broad overview of your marketing efforts (including your current markets and your products/services) in the context of current economic and competitive conditions.

Begin by answering the following questions. Don't aim for 100% accuracy. You can fine tune your answers later.

Question 1: What business are you in?

If you have written a business plan, you have already gone through this exercise. if not, ask:

- ☐ *What are your products/services?* Your business definition is based on what you sell.
- ☐ *Who are your customers?* Your present customer base and the target markets you want to serve help focus the definition further.
- ☐ *Why do your customers buy from you?* There are plenty of competitors for every business, and a wide range of other products and services for your customers and prospects to buy.
- ☐ *What sets you business apart from your competitors?* What's distinct or unusual about your business? If you can differentiate yourself from your competitors in the eyes of your market, you gain a strong advantage.

Your definition of your business will determine the direction your business takes. If you can state clearly and succinctly what you sell, to whom, and why they buy from you, you are well on the way to creating an effective marketing plan.

Source: Bangs, Jr., David H. *The Marketing Planning Guide*. 1990. Upstart Publishing Company, Inc. Reprinted and translated with permission.

If you can state clearly and succinctly what you sell, to whom, and why they buy from you, you are well on the way to creating an effective marketing plan.

Imagine yourself traveling in an airplane. You strike up a conversation with the person sitting next to you, who asks, "What business are you in?" How would you answer? Your response should be brief, but clear and specific.

There is no "right" answer. A series of answers evolves as your business changes. Your products/services and markets change. So does your competitive position. Other people will copy what you do well, and compete for your customers on price, quality, service, or wherever you appear vulnerable.

All your market planning efforts are an attempt to elaborate on your answer to that seemingly simple question, "What business are you in?"

Question 2: What do you sell?
What are you selling? Computers? Landscape designs? Real estate? Clothing? Legal advice? Fish? Medical services? Baseball bats?

In Chapter Two you will return to your product/service list from a different angle. For now, just list the products/services you sell in Figure 1.2 (Appendix Three contains blank copies of the forms found in the text).

Question 3: What are your target markets?
Target marketing is a simple concept. You have a limited number of marketing dollars. Your business has a potential market consisting of a vaguely defined group of people who might buy your products. In order to invest your money wisely you have to narrow that broad group down to those persons (or persons in particular institutions) most likely to buy from you.

Many potential buyers are too far away geographically, can't afford your prices, don't want to change suppliers, prefer to deal locally, or are unlikely for other reasons to become your customers. Recognizing these limitations on your market is the first step toward target marketing. Next, identify the segments of the overall market which are most likely to buy from you. (See Chapter Three, pages 24 through 27 for more on this.)

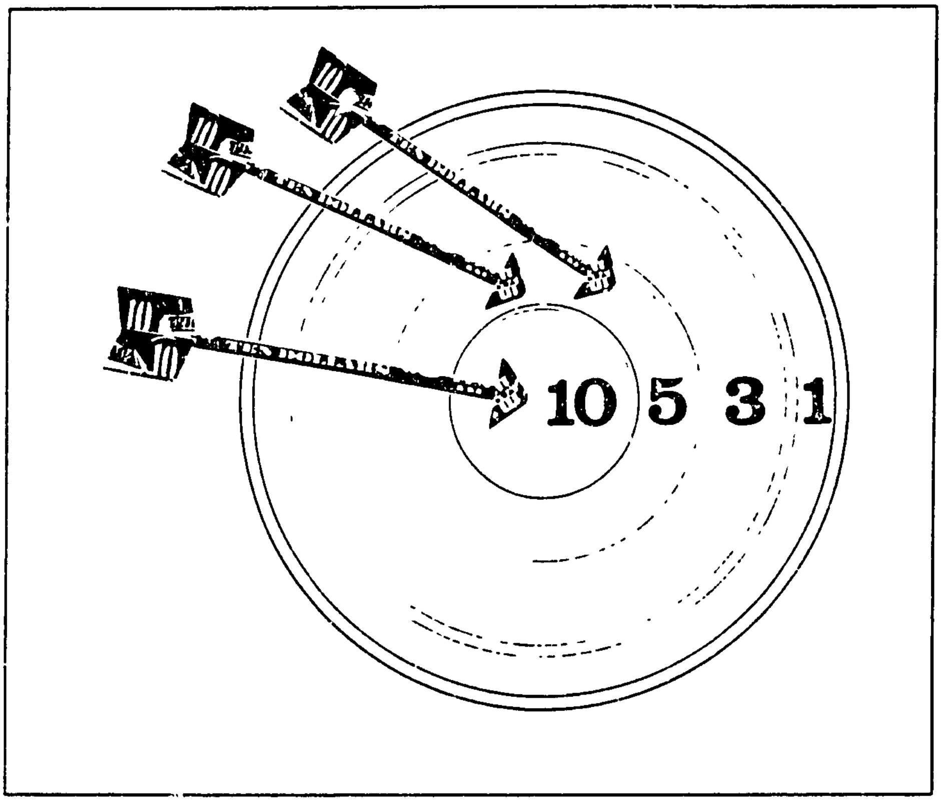
What is target marketing? Look at Figure 1.1. The bull's eye is worth $10 in sales, the first ring $5, the next ring $3, the final ring $1. Missing the target is a dead loss.

Now suppose you need $100 in sales to break even, and you have a marketing budget of $15 (for the sake of the illustration, think of that as 15 arrows). In order to meet your $100 goal, you need at least five bull's eyes. Any fewer and you can't achieve your goal of $100. Needless to say, you'd take considerable care with each arrow.

To push the simile a bit further, you'd find that your marksmanship improves with practice, that taking careful note of surrounding conditions is important, and that focusing on your target pays off. Shooting at one random target after another is harder, and makes your expensively gathered experience useless. So does changing your bow, or forgetting to keep score.

In marketing, you have to keep track of what you're up to. Fashions change. The economic climate changes. Products and services gain and lose value. Markets shift. But you will always have a finite number of arrows (marketing dollars), and you will always find that once you have the range on a target it pays off to keep shooting at that target until you have good reasons to shoot at a new one.

Figure 1.1
Target Marketing



Target marketing is an ongoing process. You want to know:

1. What are your products and services? You've made a first cut at this one.
2. Who is most likely to buy them from you?
3. What characteristics (wants, needs, habits, and so forth) do your customers and hottest prospects share? Segment or differentiate the market.
4. How big are your marketing segments?
5. What is the most profitable segment mix, in terms of ease and cost of sales, sales volume, and price? Rank the segments in terms of potential profitability for your business.

For each product/service, what are the target markets? Jot them down on Figure 1.2.

Figure 1.2
Product/Service and Market List

If you have many products/services, try to bundle them together into no more than 10 categories. You can always expand the list later—but for now, keep it simple.

	Product/Service	Target Markets
1.	Business consulting	
2.	Monthly accounting services	Manufacturers,
3.	Audits	service firms and
4.	Tax return preparation	retailers with
5.	Tax consultation & representation	sales of
6.	Special projects	$700,000 to
7.	Other accounting services	$5,000,000
8.		
9.		
10.		

Question 4: What are your marketing goals for next year? Your sales and profit goals?

You need two sets of goals: for your business and for yourself. Your personal goals come first. You want to be sure you don't commit your business to a strategy which runs counter to your personal wishes. Do you want to sell your business in a few years and retire? Build the business to Fortune 1,000 size, or keep it small? Be a technological trailblazer? All of these have been cited by small business owners, and each has profound marketing implications.

Figure 1.3
Your Personal Goals

1. How much money do you want, or need, to earn? $60,000

2. What sort of lifestyle is desirable for you and your family? Affluent

3. How big do you want your business to be? Sales of $250,000

4. How will your business reflect you and your values? I want to be fair to my employees and to my clients.

5. What are your risk parameters? What is your tolerance for risk? Ours is not a business to take risks—we need achievable goals.

6. What do you want to achieve in five years? Semi-retirement

You need two sets of goals for your business. Your personal goals come first.

Some plausible marketing goals for the immediate future are increased dollar or unit sales, improved market share, greater profits, entry into new markets, abandoning a current market, and adopting a new technology or product line. Maybe you want to improve your company's image, advertising, or promotional efforts. Or implement a new pricing strategy or distribution process.

Be general. These goals will be reexamined and refocused. To turn these vague goals into real objectives, you have to do more. Objectives involve specific numbers and time frames. For now, you will jot down the broad marketing goals you would like to achieve over the next year and over the next three years in Figure 1.5.

Sales and profit goals can be more precise.

If you have a small number of product/service lines, break the goals down further. But even an aggregate number is helpful; you can break it down later. For each product/service and target market of Figure 1.2, forecast sales for the next year in Figure 1.4. A worst case/best case/most likely case approach makes this somewhat easier and more accurate than just guessing. A product-by-product approach produces a more accurate forecast than lumping all your sales together in one undifferentiated heap.

Figure 1.4
Sales Approach

For each product/service or product line, estimate what sales would be if everything goes wrong next year. Then estimate what sales would be if everything goes perfectly. Since neither case is likely, an in-between sales figure will be a more accurate forecast.

Sales Forecast

Product/Service	Worst Case	Most Likely Case	Best Case
1. Business Consulting	$25,000	$30,000	$40,000
2. Monthly accounting Services	$25,000	$30,000	$40,000
3. Audits	$10,000	$20,000	$30,000
4. Tax return preparation	$25,000	$30,000	$30,000
5. Tax consultation & representation	$20,000	$25,000	$30,000
6. Special Projects	$15,000	$20,000	$30,000
7. Other accounting Services	$15,000	$20,000	$25,000
8.			
9.			
10.			
TOTAL :	$135,000	$175,000	$225,000

Profit goals are harder to establish. If you know what profit you traditionally make as a percentage of sales, use the sales forecast and add a bit. You don't want to set goals too low, and you will (you hope) become more profitable with more sales. Experience and time will correct or corroborate your hopes.

Note that Figure 1.5 gives you both a dollar figure and a time frame. This makes your broad objectives more precise, which helps you set up benchmarks to test progress and measure improvement.

Figure 1.5

Preliminary Marketing, Sales, and Profit Goals

Marketing Goals:

1. Develop a program for small business financial management
2. Develop a program for more management consulting and
3. less accounting
4.
5.

Sales Goals for Each Product/Service (see Figure 1.4 for next year's most likely figures):

	For Next Year	In Three Years
1. Business consulting	$ 30,000	$ 45,000
2. Monthly accounting	$ 30,000	$ 45,000
3. Audits	$ 20,000	$ 40,000
4. Tax return preparation	$ 30,000	$ 35,000
5. Tax consultation & representation	$ 25,000	$ 35,000
6. Special projects	$ 20,000	$ 35,000
7. Other accounting services	$ 20,000	$ 30,000
Profit Goals:	$ 175,000 $50,000 profit	$ 265,000 at least $100,000

Comments:

Question 5: What might keep you from achieving these goals?

Possible barriers include cash flow problems or capital shortages, personnel deficiencies or inefficiencies, weak technology, stale product lines, pricing woes, declining or flat sales, strong new competitors, quality control problems, and many more.

Every company has limitations. A smart small business owner or manager knows what the problems are and addresses them. The ostrich-like manager, on the other hand, is always receiving nasty blind-side surprises.

A smart small business owner or manager knows what the problems are and addresses them.

Some problems are long-term: A job shop printer has to be concerned about laser printing, not because the technology is widespread but because it will be, and it will change his or her business. Being a supplier to a declining industry is a long-term problem. So is being located in a stagnant or declining local economy.

Product and service limitations might involve quality control, rejected raw inventories, stock-outs, delivery problems, lack of skilled service personnel, or old equipment that puts you at a time and cost disadvantage.

Know your limitations. Then correct them—or adjust your marketing plans to accommodate them. Follow Figure 1.6 and keep a list of problems that you think might get between you and your goals. The finest memory is not so firm as faded ink. Write them down.

Figure 1.6
Obstacles We Could Face

Today's Date: 3/6/87

What problems am I avoiding?

1. Cash flow: slow paying clients and collections are difficult
2. Educational updates: necessary but difficult to produce
3. Setting clear, consistent fees

What problems might prevent us from reaching our marketing, sales, and profit goals?

1. Time — We have a vicious circle!
2. Being understaffed — Once our cash flow is up,
3. then we can deal with
4. these problems.
5.

What are we going to do about these problems?

1. Assign responsibility to individuals to achieve solutions.
2. Allocate resources and authority to these people.
3. Establish benchmarks and deadlines to help them monitor their progress.

We want to increase our cash flow in 3 months, and we want to add personnel in 6 months.

Marketing is as much a cost of doing business as rent or payroll.

Note that Figure 1.6 calls for action. A marketing plan has to be implemented, or it's a waste of time. Dramatic changes in your business will come from correcting errors and problems. More lasting and profitable, if less splashy, changes result from implementing a carefully thought-out marketing strategy.

Question 6: What is your marketing budget?
This is a trick question. If you have a marketing budget, you can answer it. If you don't, you have the most common problem: no budget at all. The second most common small business budgeting problem is relying on a reactive, sloppy, "whatever is available if I have no better use for it" excuse for a budget.

Marketing is as much a cost of doing business as rent or payroll. It isn't a "cost center" to cut at the first sign of a sales slump or reduce to boost profits for a month or two. If you don't have a marketing budget, or if you think your current budget needs improvement, go no further. You have to have a budget— unless you want to waste money and forego sales and profit improvement.

Anyone can set a budget. Setting a budget worth following requires a lot of skill.

One more common method of setting a marketing budget is to allocate a fixed percentage of forecast sales on a calendar basis. You can get trade figures. Ask your business counselor, accountant, banker, or other financial experts such as editors of trade magazines. Ask other successful business owners. These figures will provide some useful guidelines.

Just remember that more than advertising and public relations come out of your marketing budget. What do sales cost you? Sales training? Preparation of window displays? Sales support and presentation pieces? Check out Figure 1.7. Your marketing budget has to reflect your business, not someone else's.

Look at your marketing, sales, and profit goals in Figure 1.5. Try to figure out what it will cost to reach them. If it is more than you can afford, fine. That forces some choices upon you. You need a marketing budget you can live with, one that helps you reach your goals and doesn't tie you to a formula that can't adjust to sudden shifts.

The best marketing budgets have two parts: first, a fixed, monthly amount to meet ongoing, monthly marketing expenses; second, a contingency or project budget to help you meet unexpected marketing needs. A new market may open up, a competitor may retire, or new competition may appear. How you respond to these opportunities and challenges is heavily influenced by your budget.

You know your marketing, sales, and profit goals. Discuss these with your accountant or business advisors. Marketing without money is like making bricks without straw. It can't be done without divine intervention—and that kind of marketing help cannot be relied on.

Figure 1.7
Marketing Budget Items

This is not an exhaustive list. Use it as a starting point. Your company will use some of these categories plus others peculiar to your marketing needs.

1. Selling (direct costs)
   Sales salaries and commissions $ ______
   Travel $ 1,000
   Entertainment $ 2,000
2. Selling (indirect costs)
   Training $ ______
   Marketing research $ ______
   Statistical analysis $ ______
   Subscriptions and dues $ 5,000
3. Advertising $ 2,000
4. Sales promotion other than advertising $10,000
5. Public relations $ 500
6. Shipping and handling
   Order filling, packaging $ ______
   Postage and cartage $ 1,000
7. Credits and collection
   Administrative expense $ ______
   Bad-debt allowance $ ______
8. Marketing administration $ ______

Incomplete campaigns eat profits, so make sure you have enough money to finish your marketing campaigns.

To set up your budgets, use your resources. Your accountant or financial advisors can help you put dollar costs to your goals more efficiently than you can. However, you can provide estimates based on your goals and prior experience in your business. Sketch in your first rough estimates in Figure 1.8.

Figure 1.8
Preliminary Marketing Budget Estimates

Made by: GL Date: 2/5/87
Reviewed by: ______ Date: ______

Goal or Action: (e.g., Advertising	Timing: monthly	Costs: $750/month)
Yellow Page ad	annually	$100/month
Chamber of Commerce	2 ads/year	$50/ad
Brochure		$2000/year
Brochure mailing	4 times/year	$800/year
Misc. ads	2 times/year	$400/year

Total: $4,500/year

Use this for rough estimates only. You need your accountant's help in setting up your final marketing budget.

MARKET OPPORTUNITY ANALYSIS

UNIT 2

Title: **MARKET OPPORTUNITY ANALYSIS**

Purpose: To understand how to analyze your market with attention to the environment, industry analysis, competitor analysis, target market profile and sales projections. This provides the foundation for the marketing plan.

Objectives: Upon completion of this unit, participants will...

- understand the relationships between market opportunity analysis, the marketing plan and the business plan.
- have identified environmental factors that will require further study.
- have briefly defined the industry, competitors and a target market profile.
- have started to determine what industry, competitor, and target market information is necessary to better understand the market and develop sales projections.

Materials:

Transparency 2-1:	Market Opportunity Analysis
Transparency 2-2:	A Checklist: Market Opportunity Analysis — Steps
Transparency 2-3:	MOA: Business Environment — Macro
Transparency 2-4:	MOA: Industry Analysis
Transparency 2-5:	Market Information: Strategy Alternatives
Transparency 2-6:	Industry Analysis
Transparency 2-7:	Primary Data Collection
Transparency 2-8:	MOA: Key Competitor Analysis
Transparency 2-9:	Your Rating vs. Competitors'
Transparency 2-10:	MOA: Target Market Profile
Transparency 2-11:	Target Market Characteristics
Transparency 2-12:	Buyer Decision Processes
Transparency 2-13:	Individual Decision Maker Influenced By The Environment
Transparency 2-14:	Sales Forecast — Determinants

Handout 2-1:	A Checklist: Market Opportunity Analysis — Steps
Handout 2-2:	Analyzing the Macroenvironment
Handout 2-3:	Your Organization: Relevant Industry(s), Competition, Target Market
Handout 2-4:	Your Rating versus Competitors'
Handout 2-5:	Market Segmentation Worksheet
Handout 2-6:	Analyzing Market Opportunities for New Ventures
Handout 2-7:	Competitive Analysis
Handout 2-8:	Researching your Market

Estimated Time: Total time: 3 hours

Introduction and Overview	30 minutes
Environment and Exercise	30 minutes
Industry Analysis and Data Collection	30 minutes
Competitor Analysis and Exercise	40 minutes
Target Market Profile and Exercise	30 minutes
Sales Forecast	20 minutes

UNIT 2

MARKET OPPORTUNITY ANALYSIS (MOA)

CONTENT	PROCESS
A. Review the Session Objectives	Introduce yourself.
In this session, we will review how to better understand your markets and how to determine if a market opportunity exists for your business. This will require attention to understanding your environment, industry, competitors and your customers so that you can estimate your sales in the future.	See the Unit Outline regarding objectives
B. MOA is part of the Marketing Plan	Use TP 1-5 from Unit 1 to briefly show how MOA is part of the marketing plan, and the marketing plan is part of a business and/or strategic plan.
You will recall that in our first marketing session, we discussed writing a marketing plan. And the first part of the marketing plan is to do a situation analysis and obtain detailed information on your markets. And don't forget that as part of a business plan, one needs to understand their market and develop a marketing plan and strategy. So all of these sessions actually fit together!	
C. MOA: Overview	Discuss TP 2-1: Market Opportunity Analysis
To determine if a market opportunity exists, to derive a sales forecast, or just to develop a better understanding of your markets, this step-by-step approach will work for you. This is a funnel because we start with the broadest and, usually, least relevant information and we become increasingly specific and more relevant.	Discuss briefly TP 2-2: A Checklist and distribute HO 2-1.

CONTENT	PROCESS
What "flows" from the end of the funnel is the information we need to develop a successful marketing plan and strategy.	
• Step 1 is to study the environment with attention to the economy, social and technological changes, governmental change and, for some businesses, even the natural environment.	
• Step 2 is to study relevant changes in your industry.	
• Step 3 is to obtain information on your competitors.	
• Step 4 is to study your potential customers.	
Once you interpret the implications for your business from these steps, then you are in a good position to develop a sales forecast and a marketing strategy.	
Each of these steps is shown in more detail in this transparency and also this handout. This is a checklist for you to use in doing your own market analysis. Now let us discuss each step.	
1. MOA: Macroenvironment	Discuss TP 2-3: MOA Business Environment — Macro
Are there forces in the macro-environment that are having an impact on your markets? What impact will economic conditions have on your business over the next year? Is there any way to better adjust to changes? Will your customers be affected by the economy? Are there possible	

CONTENT	PROCESS
governmental changes that present threats? Will any changes present opportunities? Will new technologies affect your customers or competitors? Are there social or demographic changes occurring that could affect your markets? Shortages? Imported products and services? (If possible, cite an example of a business whose markets have been affected by such changes.)	Show TP 2-5.
Here is a worksheet to help you think about your business. Put a mark on the paper opposite each factor if it represents either a threat or an opportunity to your business and your markets. You may wish to make notes that you can later refer to in writing a marketing and business strategy.	Distribute HO 2-2: Analyzing the Macroenvironment, and let participants take 8—10 minutes to complete the worksheet <u>for their business</u>, thinking of changes that may occur over the next year or two. Then ask for eight participants to quickly cite their most important threats or opportunities.
(After 10 minutes) What are the two most important threats or opportunities to your business? Would it be a good idea to obtain more information on some of these?	
2. MOA: Industry Analysis	
Now, let us go to Step 2, Industry Analysis.	Show TP 2-1: Market Opportunity Analysis and then discuss TP 2-4: MOA: Industry Analysis
Many times there are changes in, for example, the retail food industry or the computer industry that can determine whether a given business will succeed or fail. The industry you are in, as defined for marketing purposes, is defined by asking, "What are the generic needs being served by the industry?" If you	

CONTENT	PROCESS
operate a bus company, for example, you are in the transportation industry. What size is the industry? Is it growing? What market segments or groups are within the industry? What are traditional marketing practices? Could you consider a different market segment or a different marketing approach? Do it differently? Would it work?	
And as you look at these different ways to obtain information regarding your markets, which ones are useful to you? Do you have existing information in your past experience or in your company? Is there any published information? Is there any new association or new business offering standardized research? Or should I conduct my own research study or pay someone else to help me? This costs the most, but it may be worth the investment.	Show TP 2-5: Market Information: Strategy Alternatives
a. Secondary/Published Information	
Secondary information is that which was primarily collected for someone else or for another purpose. But because of this, it is inexpensive and may still be very useful.	First discuss sources of information that are developing in Poland (new associations, new government data, etc.) to the extent possible.
b. Primary Data Collection	Discuss TP 2-6: Industry Analysis and TP 2-7: Primary Data Collection. Cite the importance of having some professional assistance, even if limited. The objective is not to teach them how to conduct research but to convince them that they will need to think very carefully about a study before it
As shown here, industry analysis can involve a long list of issues and you have to ask yourself, "Are each of these important to understanding my markets and	

CONTENT	PROCESS
the future of my industry?" If not, study only the ones most important to you. Primary data collection, as shown here, may be conducted in various ways. As contrasted with secondary information, this is information specifically collected for your needs. It is often worth investing modest monies to obtain some professional advice. Yet a lot can be done by yourself as well. <u>Focus groups</u> involve selecting 8—10 people who are representative of your target market and having a discussion leader informally lead them to discuss issues of importance to you — for example, "If you don't buy this from our company, where else can (or do) you go?" Discussion usually lasts 1-1/2 — 2 hours and the people are given some incentive or paid a small sum to participate. Danger: Look for qualitative insights but not conclusive results — even if you run 2—3 such groups. <u>Concept testing</u> is an individual personal interview approach, usually telling the interviewee of an idea for a new product or service rather than a fully developed protype. This saves development expense, but it is less realistic for the respondents. If the new product or service requires major changes in the behavior of customers (e.g.,	is begun. Also, a <u>little</u> professional help is often a good idea. Cite other useful suggestions regarding the subject from your experience and studies.

CONTENT	PROCESS
taking a new bus service rather than driving), then it requires "discontinuous" customer behavior and it will be less certain that you can obtain valid results. The concept description should be as realistic as possible, the people who are interviewed are best selected randomly — and from the target market that you carefully defined for your business! The questionnaire can ask people if they would "consider" buying your product or service, or "try it once," or buy it "regularly" or ask "how frequently" they will buy it or, finally, even ask them to make a (behavioral) commitment to buy (e.g., sign a form or make a small down payment). The way the questions are worded will result in different answers. Usually, asking if people would be willing to try a product or service once yields the most accurate answers. There is a tendency for people to tell you what they think you want to hear. So if 80% say they will buy, it is usually best to cut the number by half — to 40% to be more realistic. <u>Product use testing</u> is more realistic for respondents than a concept test, and a market test is more realistic than a product use test. So their answers are more accurate. The bad news is that	

CONTENT	PROCESS
these require more time and expense to use. A product use test allows the customer to use the product or service and judge whether or not they would likely buy it. A market test involves actually introducing a product into a market area on a small scale. This can sometimes be partially done by small businesses, but it is usually too expensive. Final question: Can you think of a research study that you need to do for your business?	
3. MOA: Competitor Analysis Use a <u>customer</u> perspective and identify your competitor's by asking customers if they do not buy from you to satisfy their needs, then who will they buy from? Sometimes the answers are a little surprising. Your objective should be to position your business in the minds of your target market customers more favorably than your competitors. What benefits do your customers want most from you (price, quality, etc.)? Also, as you study your competitors, can you learn from their marketing practices and get some idea what your percentage of the market share is as compared to them? If you make changes in your marketing strategy, what is their response likely to be? How is competition	Show TP 2-1: Market Opportunity Analysis and then discuss TP 2-8: MOA: Key Competitor Analysis.

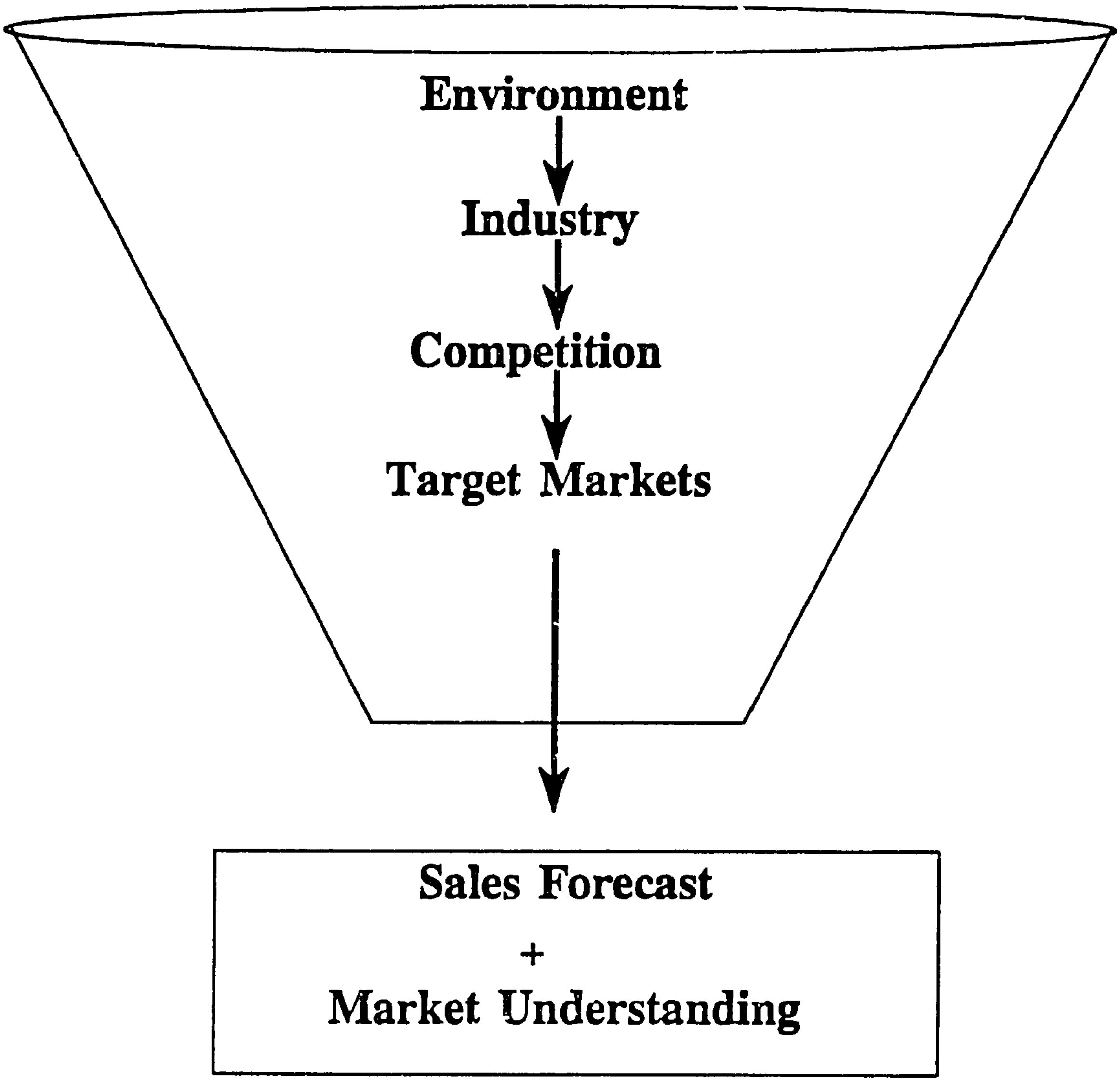
CONTENT	PROCESS
changing and should I prepare to adjust as competition increases? In your reading, there is an excellent procedure that you can use to carefully evaluate your competitors (The Marketing Planning Guide, D. H. Bangs, Chapter 4).	
Here is a handout for you to complete regarding your industry and competition. You may have indirect, less important or secondary competitors who are also good to identify. Also, fill in the form very quickly — who are your key (most direct) competitors?	Distribute HO 2-3 and ask participants to fill in the answers. Then have them briefly discuss their competitive situations.
Or if you have too many to list, select three that best represent the types of competitors which you face. In a moment, we will return to the target market position.	
As seen here, you and your customers can rate your business as compared to your competitors. What do your competitors most want? List across the top in the handout. And list specific competitors down the side. Quickly, how does your business rate in providing customers with what they want as compared to your business? Is it possible in consideration of costs to do better in competing? You can use this worksheet this next week and ask customers, suppliers, and others to objectively give you their evaluations to be sure your perceptions are accurate.	Discuss TP 2-9: Your Rating vs. Competitors' and distribute HO 2-4 and have them complete the form (if possible).

CONTENT	PROCESS
4. MOA: Target Market Profile	
Step 4 in the market opportunity analysis often deserves the most time and attention — that is, to collect information so as to better understand your target market.	Encourage participants to share their experience in dealing with these ideas. Have them complete HO 2-5: Market Segmentation Worksheet with reference to their Unit 1 reading.
First ask, "What is the general type of customer needs which I serve?" Then what needs are served by the types of products (or services) I sell? Finally, is my business or are my products of special interest to some of my customers — like a "brand" of product?	Discuss TP 2-10: MOA: Target Market Profile
LOT airlines serves general transportation needs, but the type of service sold is <u>air</u> transportation. The brand name, LOT, however, for some people creates added customer loyalty.	
In defining your target markets, you need to target potential customers who are likely to prefer what you offer more than what competitors offer.	
As discussed in the first marketing session, you can target customers based on the particular benefits they are seeking from you. The mix of benefits (e.g., on-time delivery, quality, etc.) that you offer can then uniquely match with the customer needs and you can then satisfy them better than your competitors.	

CONTENT	PROCESS
But after this thinking is complete, you can then describe the characteristics of your target market. What are their characteristics? What is your primary target market geographically? That is, within what distance do you (or will you) receive 70—80% of your sales? Beyond geography, can demographic characteristics be used to describe those who are most likely to be your customers?	Discuss TP 2-11: Target Market Characteristics
As shown here, it is important to develop a detailed customer profile with attention to their characteristics, how they decide to buy, how the attributes (or benefits) of your products and services are weighted in importance to them, and how outside influences can affect your customers' decisions. As shown here, there are many characteristics that can make up a target market. Which ones best describe your customers? To be a good target market, the potential customers must be both able and willing to purchase your products and services. Now please take a moment to complete the exercise and list the characteristics of your ideal customers in the handout (2—5).	
As seen in this diagram, many of you serve customers who go through steps in deciding to buy and rebuy. Knowledge of the process your customers go through can enable you to develop marketing strategies to influence customers to move more quickly from step-to-step and to lose fewer customers step-by-step.	Show TP 2-12: Buyer Decision Processes
Finally, as shown here, it may be	Show TP 2-13: Individual Decision Maker Influenced By The Environment

CONTENT	PROCESS
important to identify influences on your customers' decisions and to consider strategies to influence the influencers!	
5. MOA: Sales Forecast The final result of a market opportunity analysis, steps 1 to 4, is a lot of information which will enable you to better judge whether a market opportunity exists for your company or not and, if so, what the sales level is likely to be. This is often very difficult, and surrounded by uncertainty, but an MOA helps reduce some of the uncertainty. Sales forecasting for new, small businesses is often more of an art than a science. The fundamental determinants of a sales forecast parallel the MOA itself: What you do, what your competitors do, what customers do and what happens in the environment.	Show TP 2-14: Sales Forecast — Determinants Emphasize the qualitative basis for most sales forecasts. The role of judgment is critical. Rarely can use quantitative models in new businesses without historical data.
D. Summary and Conclusions To conclude, to analyze your markets requires attention to the environment, your industry, competitors and your customers. The better you understand these factors, the better basis you will have to develop your marketing strategy.	Review key points in the session by using TP 2-1: Market Opportunity Analysis and/or TP 2-2: A Checklist: MOA — Analysis. Also refer back to using this information in developing the marketing, business and/or strategic plan. Distribute to the participants HO 2-6 and HO 2-8 for later reading.

MARKET OPPORTUNITY ANALYSIS



A CHECKLIST

MARKET OPPORTUNITY ANALYSIS: STEPS

1. **Business Environmental Forces?**
2. **Industry Description and Outlook**
3. **Key Competitor Analysis**
4. **Target Market Profile**
5. **Sales Projections**

MARKET OPPORTUNITY ANALYSIS (MOA)

1. **Business Environment-Macro**

   Relevant Forces?

- **Economy**
- **Technology**
- **Social Changes**
- **Regulation/Legal Issues**
- **Natural Environment**
- **Shortages**

So What?

MARKET OPPORTUNITY ANALYSIS (MOA)

2. **Industry Analysis**

- **Generic Needs Being Served**

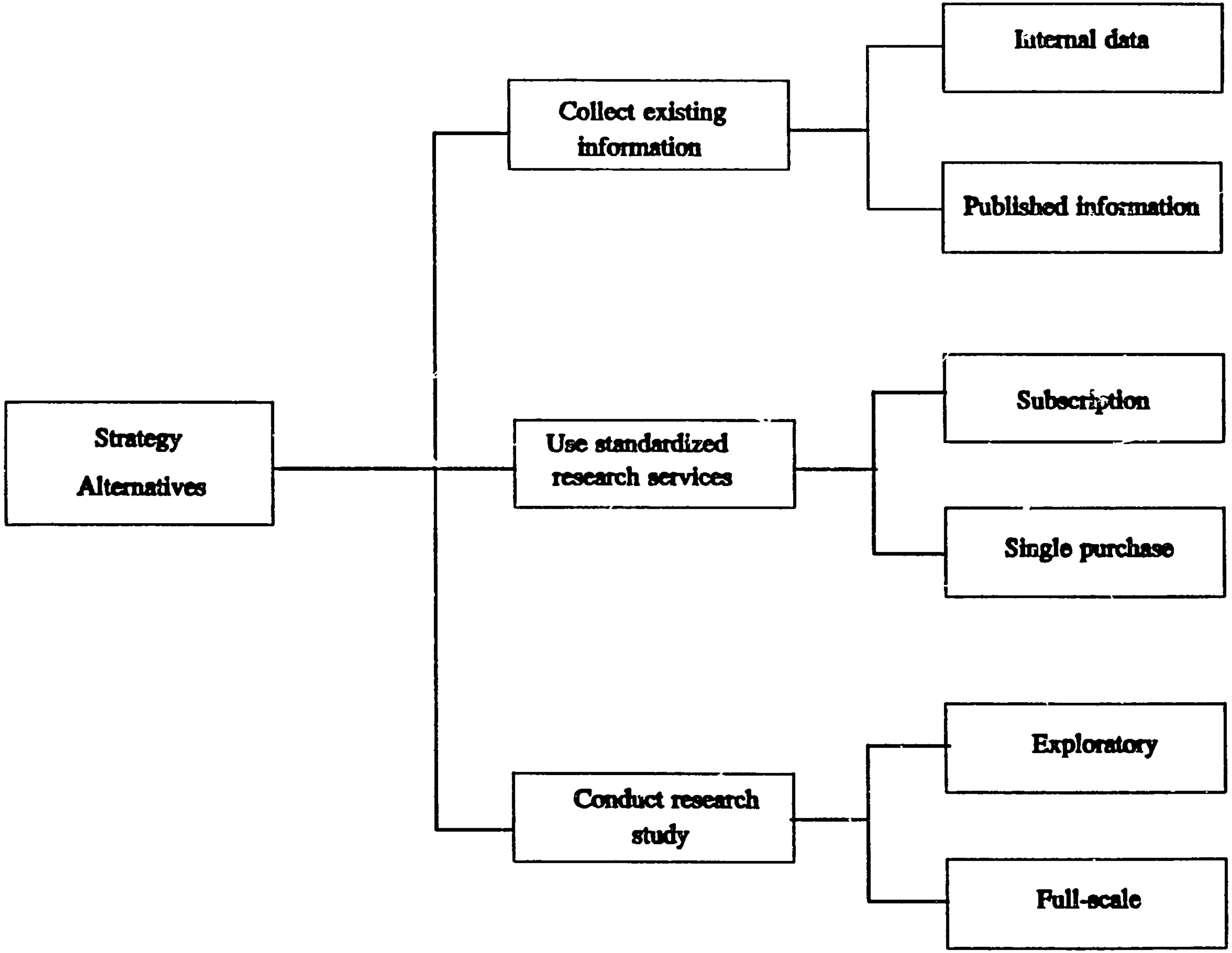
  - Size? **- Growth?**

- **Types of Segments**
- **Existing Practices -**

  Do It Differently?

- **Trends**

So What?


Strategy
Alternatives
Collect existing information
Use standardized research services
Conduct research study
Internal data
Published information
Subscription
Single purchase
Exploratory
Full-scale

INDUSTRY ANALYSIS

Data Categories	*Compilation*
Product lines	By company
Buyers and their behavior	By year
Complementary products	By functional area
Substitute products	

Growth
- Rate
- Pattern (seasonal, cyclical)
- Determinants

Technology of production and distribution
- Cost structure
- Economies of scale
- Value added
- Logistics
- Labor

Marketing and Selling
- Market segmentation
- Marketing practices

Suppliers

Distribution channels (if indirect)

Innovation
- Types
- Sources
- Rate
- Economies of scale

Competitors—strategy, goals, strengths and weaknesses, assumptions

Social, political, legal environment

Macroeconomic environment

Source: Porter, Michael E. (1983). *Competitive Strategy*, New York: The Free Press, p. 370.

PRIMARY DATA COLLECTION

1. Focus Groups
2. Concept Testing
   - Continuous vs. Discontinuous Ventures
   - Concept Description
   - Sampling: Target Market
   - Questionnaire Design

     "Consideration Intentions"

     Trial Intentions

   "Regular" Frequency Intentions

   Frequency of Purchase

   Behavioral Commitment
3. Product Use Testing
4. Market Testing

MARKET OPPORTUNITY ANALYSIS (MOA)

3. KEY COMPETITOR ANALYSIS

WHO IS COMPETING FOR

THE SAME $ AND NEEDS?

- Products
- Positioning in the Minds of Potential Customers
- Marketing Practices
- Estimated Market Shares?
- Competitive Reaction?

YOUR RATING VS. COMPETITORS'

Competitive Strength Measured on a Scale of 1(High) to 5(Low) for What Customers Want

	Patents	Technology	Location	Service	Price
Your Business					
Primary Competition Company A					
Company B					
Secondary Competition Company X					
Company Y					

MARKET OPPORTUNITY ANALYSIS (MOA)

4. TARGET MARKET PROFILE

- Start with Customer Needs

  Generic - Product - Brand

- End User Consumer Focus

- Customer Profiles

  - Who Needs It?

    - Characteristics

  - What are They like?

    - Not Only Demographics

  - How Do They Decide?

  - Importance of Different Product Attributes?

  - Outside Influences?

TARGET MARKET CHARACTERISTICS

- Geographic Market Area
- Consumer Demographic Characteristics

  Age
  Sex
  Income
  Occupation
  Marital status
  Family size
  Employment status
  Education

- Industrial Customer Demographics

  Size of organization
  Geographic location
  Industry
  Products produced

- Lifestyles, Activities, Interests, Opinions
- Product/Service Benefits
- Frequency of produce/service use (heavy users?)

BUYER DECISION PROCESSES

HOW DO YOUR BUYERS DECIDE?

Need Recognition

↓

Search for Information

↓

Evaluation of Alternatives

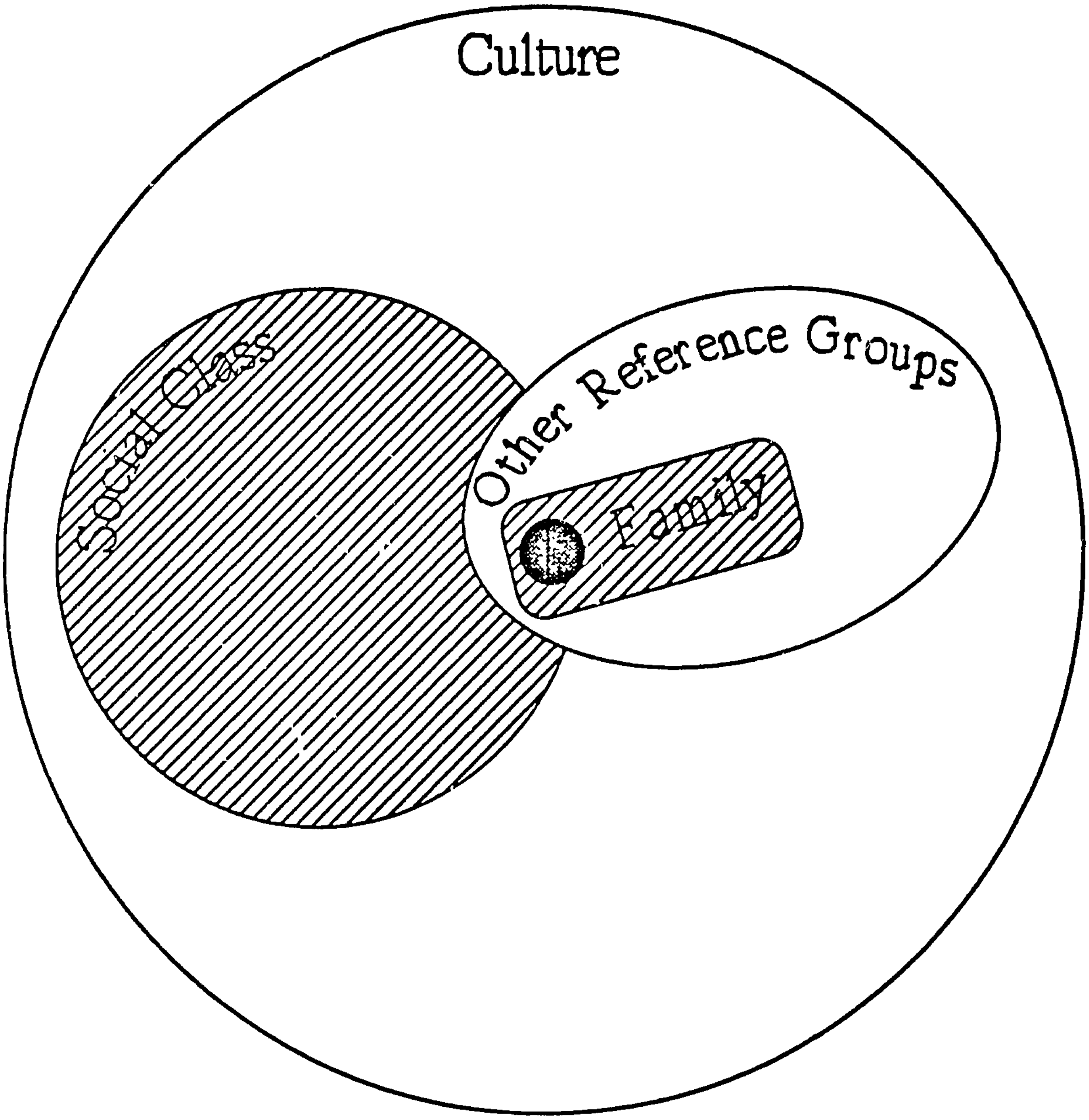
↓

Purchase Decision

↓

Purchase/Use Outcomes

THE INDIVIDUAL DECISION MAKER (SHOWN AS A DOT) IS INFLUENCED BY THE ENVIRONMENT



- Some "Outside Influences" for Consumers
- Influences on Organizational/Industrial Buyers?
- On Your Buyers?

SALES FORECAST -
- DETERMINANTS

1. What You Do

2. What Competitors Do

3. What Customers Do

4. What Happens in the Environment

A CHECKLIST
MARKET OPPORTUNITY ANALYSIS: STEPS

1. **BUSINESS ENVIRONMENTAL FORCES?**
   - Economic Conditions and Trends
   - Legal and Regulatory Situation and Trends
   - Technological Positioning and Trends (State-of-the-Art: Related R&D, if Any)
   - Relevant Social Changes
   - Natural Environment (Shortages? Vulnerable?)
   - Implications for Opportunity

2. **INDUSTRY DESCRIPTION AND OUTLOOK**
   - What Industry Am I In?
   - Size In 3-5 Years?
   - Types of Market Segments
   - Industry Marketing Practices
   - Major Trends
   - Implications for Opportunity

3. **KEY COMPETITOR ANALYSIS**
   - Product Description
   - Market Positioning (Relative Strengths and Weaknesses as Seen by Customers)
   - Marketing Practices of Each Key Competitor: Channels, Pricing, Promotion, Service
   - Estimated Market Shares (if Relevant)
   - Implications for Opportunity

4. **TARGET MARKET PROFILE**
   - Levels: Generic Needs - Product Type - Brand Specific
   - End User Focus/Also Channel Members
   - Targeted Customer Profiles
     - Who Are My Potential Customers?
     - What Are They Like as Consumers/Business People?
     - How Do they Decide to Buy/Not buy?
     - Importance of Different Product Attributes?
     - What Outside Influences are There on Buying Decisions?
     - Implications for Opportunity

5. **SALES PROJECTIONS**
   - Use as Many Formal and/or Intuitive Approaches as Possible
   - Compare the Results
   - GO/NO GO

HO 2-2

WORKSHEET

ANALYZING THE MACROENVIRONMENT

<u>ECONOMIC FORCES</u>	<u>THREATS</u>	<u>OPPORTUNITIES</u>
INTEREST RATES		
INFLATION		
GROWTH		
RECESSION		
VALUE OF THE DOLLAR		
REAL INCOME INCREASES		
INDUSTRY CHANGES		
COMPETITIVE CHANGES		
WAGE RATES		
LABOR AVAILABILITY		
OTHER:		

<u>GOVERNMENT</u>

NEW LAWS

NEW REGULATIONS

NEW ENFORCEMENT

COURT DECISIONS

TAXES

OTHER:

	THREATS	OPPORTUNITIES
SOCIAL		
DEMOGRAPHIC CHANGES		
VALUE		
NEW LIFESTYLES		
NEW EXPECTATIONS		
SOCIAL ISSUES		
OTHER:		
TECHNOLOGICAL		
INNOVATIONS		
PATENTS		
NEW PRODUCTS		
R & D		
NEW DISTRIBUTION METHODS		
NEW PROMOTION METHODS		
NEW COSTS		
PRODUCTIVITY		
OTHER:		

	THREATS	OPPORTUNITIES
NATURAL		
CLIMATE		
SHORTAGES		
PHYSICAL ENVIRONMENT		
OTHER:		
GLOBAL		
COMPETITION		
COSTS		
MARKETS		
OTHER:		

YOUR ORGANIZATION

Relevant Industry(s):

Primary ______________________

Secondary ______________________

Competition:

Types:

Primary ______________________

Secondary ______________________

Key Competitors

____

____

____

Target Market

Geographic:

Primary ______________________

Secondary ______________________

Other Characteristics:

Primary ______________________

Secondary ______________________

YOUR RATING VS. COMPETITORS'

Competitive Strength Measured on a Scale of 1(High) to 5(Low) for What Customers Want

	Patents	Technology	Location	Service	Price
Your Business					
Primary Competition					
Secondary Competition					

Figure 3.3
Some Market Segmentation Criteria

Use these categories as criteria to describe your customer base. Look for clusters of people described by these criteria to help direct further marketing efforts.

Demographic:
- Age
- Gender
- Income level
- Occupation
- Religion
- Race/ethnic group
- Education
- Social class

Geographic:
- Country
- Region
- State
- County
- City/town
- Size of population
- Climate
- Population density

Psychographic:
- Leader or follower
- Extrovert or introvert
- Achievement-oriented or content with the status quo
- Independent or dependent
- Conservative or liberal
- Traditional or experimental
- Societally-conscious or self-centered

Consumer/Behavioral:
- Rate of usage
- Benefits sought
- Method of usage
- Frequency of usage
- Frequency of purchase

Business Markets:
- Type of business (manufacturer, retail, wholesale, service)
- Standard Industrial Classification (SIC) Code
- Size of business
- Financial strength
- Number of employees
- Location
- Structure
- Sales level
- Special requirements
- Distribution patterns

Figure 3.4

Market Segmentation Worksheet

Fill out one of these forms for each of your products/services.

By:______________________________ Date: ____________________

Product/service:

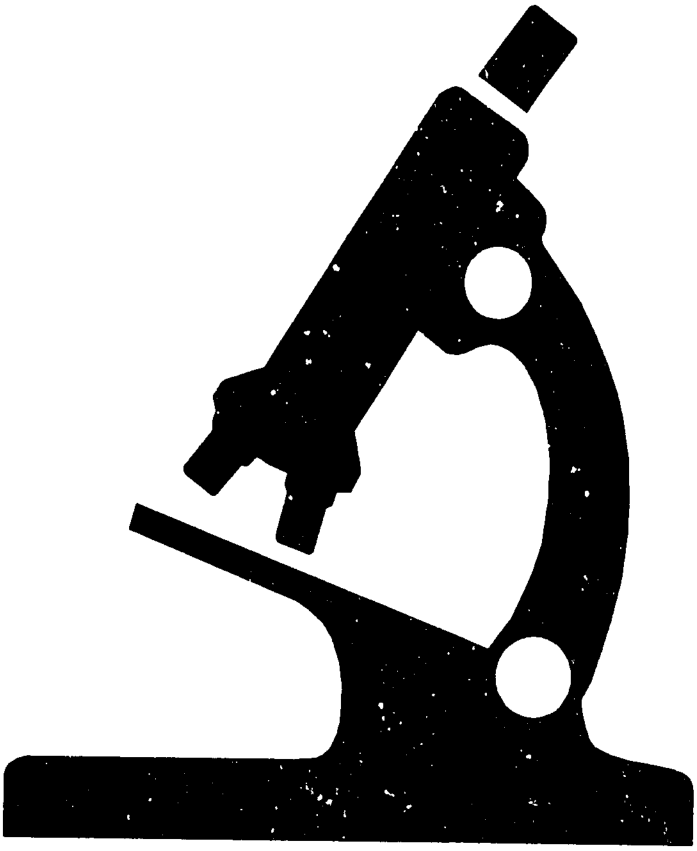
Describe "ideal customer" according to the criteria listed in Figures 3.2 and 3.3 (see pages 24 and 26 in the text).

Describe their purchasing patterns.

What makes them "ideal customers" for this product/service?

ANALYZING MARKET OPPORTUNITIES FOR NEW VENTURES

Robert B. Woodruff
Ernest R. Cadotte



Each new business venture faces an environment which is partly friendly and partly hostile, partly known and partly unknown. While a great idea, adequate financing, and sound management are obviously important in beginning a new venture, the external environment will also be a crucial factor in the success or failure of the undertaking. The implication is clear: new venture decisions should be based on a careful analysis of this external environment, and this can be accomplished by conducting a market opportunity analysis (MOA).

The major elements of a market opportunity analysis are shown in Figure 1. With an analysis of the relevant macroenvironment, major forces (economic, social, technological, legal, and natural) are uncovered which might affect market opportunity. Secondly, major markets in which the product might compete are identified and segmented. Next, a wealth of information is gathered to learn about specific customers in markets, the competition, and appropriate channels of distribution. This information, in turn, both provides important guides for developing a strategy to take advantage of market opportunity and lays the foundation for forecasts of the new venture's sales. The final step in the process is an evaluation of the attractiveness of the entire market opportunity in terms of financial return, consistency with organizational objectives, and other criteria.

Macroenvironment

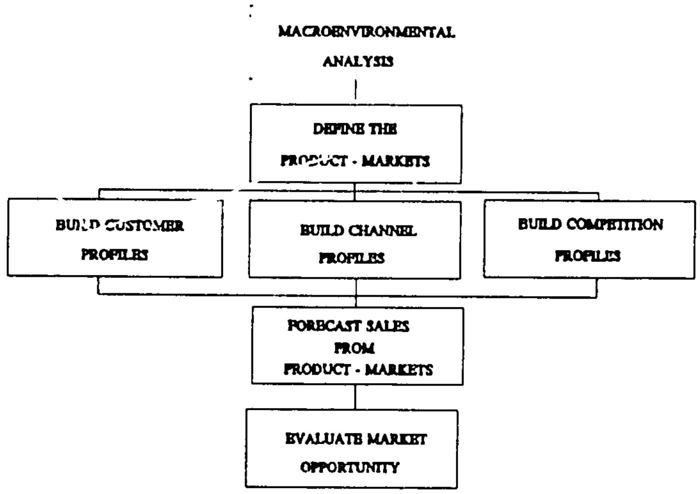
Every new venture seeks market opportunity in the context of a larger macroenvironment. Forces arising from this part of the external environment may affect the venture's organizational capabilities, customers, competitors, and channels of distribution. For instance, government spending priorities regarding the proposed space plane could greatly affect American Matrix Corporation's ability to sell advanced structural ceramics. Similarly, the outcome of technological advances by the Oak Ridge National Lab regarding artificial intelligence, computer imaging and manipulator arms could determine the next generation of factory robots. Or, an economic downturn could reduce consumer spending for nonessential goods and undermine the sale of Phyton Technologies, Inc. (Oak Ridge) horticultural plants, which they produce by cloning desirable characteristics.

A macroenvironmental analysis identifies important trends with regard to these forces which will affect the potential sales for the new venture. Importantly, not all aspects of the macroenvironment will be relevant for the MOA. The analyst's challenge is to selectively examine those forces operating on the determinants of market opportunity.

Product Markets

Markets for a new venture's product are typically not homogeneous. The idea of a *market structure* pinpoints this fact. Market structure is the arrangement of groups or segments of buyers comprising a total market. Notably, each segment differs from the others in the way its buyers will respond to a marketing strategy. In fact, this structure exists, for the most part, because customers in different groups have at least somewhat different *market requirements*. Market requirements are the benefits that buyers expect from sellers as a condition of buying. Probably the most important and difficult challenge for an MOA is to find out what the market structure is and what its customers' market requirements are.

FIGURE 1: THE MOA APPROACH



A good starting point for describing market structure is to search for markets for competing, but existing products. Rarely does a new venture have an entire market to itself, regardless of the innovative quality of its product. Customer needs are seldom created by new products. Rather, new products provide new ways of meeting existing needs. For example, when Sony brought out the VCR, a very innovative consumer product, it was meeting the needs of customers who wished to watch programming at their convenience.

This relationship between market needs and products is the basis for the concept of *product-markets structure*. Markets are created by needs, buying power, and products to satisfy needs. If a need is present, the overwhelming odds are that there are already some products around to satisfy that need. Thus, such products become a source of competition. For each customer need, there are typically several products available to satisfy that need. A *generic class* groups all these products into one category, and each product in the generic class provides an alternative way of satisfying the need. These products are the different *product types* or forms. Finally, each product type has one or more similar brands (i.e., different company offerings) competing with each other. See Figure 2.

The restaurant business provides a familiar illustration of product-market structure. The need, or interest, is eating out, where various aspects of the meal are provided for the customer, including menu selection, food preparation, and cleanup. the generic class of products available to satisfy this need is restaurants (see Figure 3). In turn, the restaurant class is comprised of different subclasses of restaurants such as fast food, family and atmosphere restaurants. Each restaurant subclass may, in turn, be further broken down into specific types of restaurants such as fast food hamburger, pizza, and chicken restaurants. Notice that each restaurant type is, in reality, a rather unique way to meet the underlying consumer need. That is, each restaurant type provides a unique and different combination of benefits and costs. Thus, customers must choose which benefit/cost combination is best for them.

Each restaurant product-type may be further broken down into competing brands. To build an edge over competitors, each company offers a somewhat unique *brand*. Of course, a brand has the characteristics of one of the product types in the generic class. McDonalds, Burger King and Wendys represent similar brands that compete in the hamburger fast food restaurant product type.

Generic classes, product types, and brands compromise a market arena. Each company and its brand is competing for business in this arena, taking on both similar and dissimilar brands of other product types when competing for a share of sales. McDonalds is really competing with other fast food hamburger restaurants, other fast food restaurants (e.g., chicken and pizza), as well as all other types of restaurants (e.g., family-style table service, family style self-service, ethnic atmosphere, etc.). An MOA must develop a picture of what this larger arena is like.

The task of defining product markets is challenging, since more than one generic class and product type classification is possible. In fact, even different companies selling in the same general arena may see the product-market structure differently. Ultimately, management must decide what structure makes the most strategic sense for the company. For example, American Matrix Corporation initially positioned its ceramic reinforcing materials within the advanced structural ceramics market, but further analysis revealed that high performance ceramics also competed with reinforced polymers and metal matrix composites in the aerospace, automobile, and sporting equipment industries. By expanding their definition of product-market structure, management was able to identify new market opportunities (substituting ceramics for plastics and metal in planes, cars and sporting equipment). It also helped to identify entrenched competitors who would not easily yield their positions in these markets.

Building Customer Profiles

With produce-market defined, the MOA can concentrate on describing the customers that comprise these markets. Figure 4 provides a listing of the kinds of information needed. Essentially, management will want to know (1) what customers are like as real people; (2) how they go about deciding what to buy to satisfy the need/want; and (3) what outside, uncontrollable (by the company) influences are affecting buying decisions. Together, the information gathered forms a profile of the customers in produce-markets.

Building useful customers profiles usually involves putting together a large body of information. Information about customers that may be important in planning marketing strategy can come from several sources, including suppliers and channel members, marketing research, and company personnel with market connections (e.g., salespersons). Further, building customer profiles can be complicated by the fact that separate profiles may be necessary for each market segment in the product-market structure. Therefore it is essential to systematically gather and record information that will be integrated into the customer profile. Expert assistance may also be needed to plan marketing research if that source is to be used effectively.

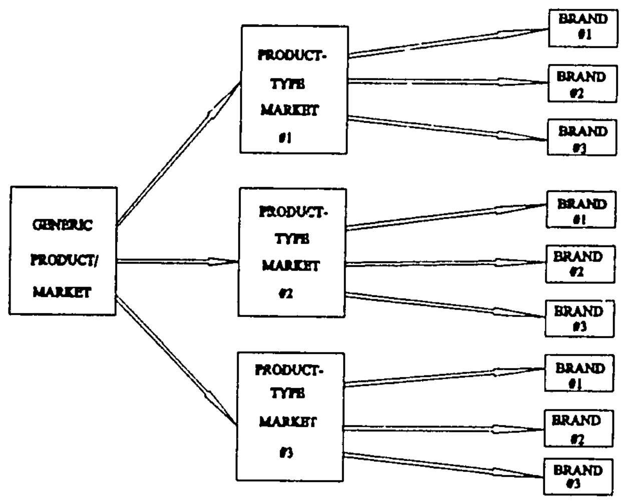
Building Channel Profiles

More often than not, cooperative channel partners are a key to success of a marketing strategy, particularly for a new venture. Recently, Computer Technology and Imaging (CTI) substantially expanded its prospects for PET scanners by signing an exclusive distribution contract with Siemens, Inc., CTI had previously developed the capability to produce a high-performance ECAT brain scanner at a comparatively low price. Their price advantage made it possible for many regional medical centers to purchase scanners, whereas previously only research hospitals could afford to buy them. One of their major obstacles was the channel: no one knew who CTI was. CTI also encountered a very long selling cycle because ECAT scanners represented a major capital expenditure. Their salespeople were spending all their time flying around the country in order to make countless presentations to various hospital committees. CTI's distribution agreement with Siemens turned these problems around. It gave the customers a name they could trust and CTI a worldwide sales force. CTI is now free to focus on improving their production facilities and developing new products while Siemens focuses on creating sales.

In contrast to CTI, Phyton Technologies found it necessary to distribute a high-tech product (cloned horticultural plants) through low-tech channels. Its cloned Boston ferns and rhododendrons could literally end up in the garden shop of K-Mart, in the local nursery, or in the florist down the street. After developing the cloning technology, Phyton's next task was to find out how shrubs and household plants are sold throughout the country. What trade shows should they attend? Who are the distributors? How far in advance could they book their orders? When do nurserymen pay their bills? These and many other questions had to be answered before the business could become viable.

In the more innovative ventures, the company may have little experience with channels for the product. However, a logical starting point is to examine the existing channels used by competing companies with products in the generic class. Special attention should be given to identifying which types of firms compose the channel (e.g., brokers, drop shippers, wholesalers, rack jobbers, etc.) and what their normal functions are. It is also important to know the protocol for conducting business within the relevant channels, including the normal terms of trade, special discounts and fees, minimum order quantities, lead time requirements, seasonal purchase patterns, promotional support requirements, etc. Figure 5 illustrates the kinds of information needed to develop a channel profile. This type of information can help management decide whether existing channels can be entered, whether they can and will provide the cooperation required, and whether other channel options are available. Further, the information should provide leads and contacts with specific channel firms for later use in negotiating a working arrangement for handling the product.

FIGURE 2. PRODUCT - MARKET STRUCTURE



Building Competition Profiles

Competition is comprised of all sellers who are appealing to the same product-markets. The essence of competition is vying for sales by employing marketing strategies. An MOA tries to uncover these competitive strategies and identify their strengths and weaknesses.

The product-market arena in which a brand competes includes different forms of competition — competition from alternative product types (e.g., family self-service restaurants vs. family table service restaurants) and from similar brands of the same product type (Big Boy's vs. Dennys). The MOA must alert management to the nature of both of these kinds of competition. Thus, it is essential to start with a broad look at competition within a generic class of products. Then the process can be narrowed down to competition between product types and finally to similar brands of a product type.

When looking at competition broadly, a company can gather information on each and every firm with product offerings in an entire generic class. Thus, the starting point is to analyze whole industries. This can be done with an *industry analysis*. The purpose is to form a picture of the competitive practices typical of the entire industry and to uncover difference in the strategies typical of different product types. For instance, an MOA for a robotic manipulator arm might examine the robotics industry, comprised of all firms that offer industrial robots. The task would be to gather the kinds of information shown in Figure 6.

The next step would be to do additional industry analyses, but now by narrowing the selections to just those firms handling one (or more) selected product types. Following the manipulator arm analysis, the MOA would assess major product types for the industrial robot industry. These product types are broken out by the major applications of industrial robots and include process

FIGURE 3: EXAMPLE OF MARKET STRUCTURE FOR RESTAURANT INDUSTRY

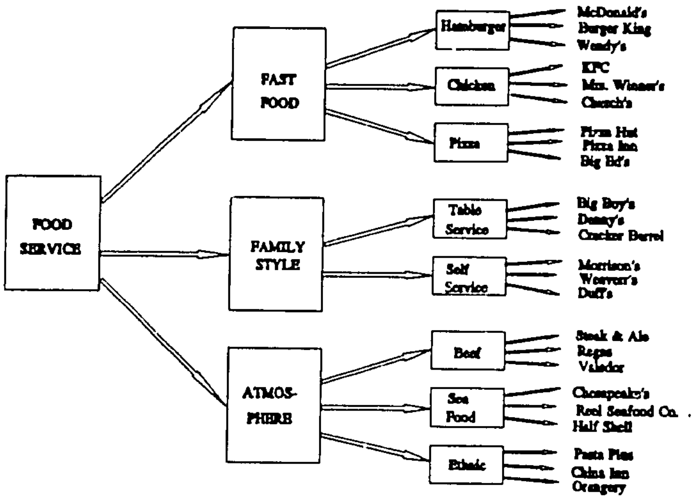


FIGURE 4

COMPONENTS OF A CUSTOMER PROFILE

What are customers like as people?
- Needs and wants
- Important use situations
- Activities and interests
- Opinions and attitudes
- Demographic characteristics
- Values

How do people decide to buy?
- Problem recognition
- Search for and use of product information
- Evaluation of alternatives
- Purchase procedures
- Satisfaction with past purchases

What outside influences are affecting buying?
- Population and social forces
- Legal forces
- Technological forces
- Economic forces
- Natural forces

operations (e.g., machining, painting, welding, etc.), assembly operations, materials handling, and testing and inspection. The market analyst would try to understand what makes each group of firms unique as opposed to the rest of the robotics industry. Again, the focus is on what commonly happens in the entire robotics industry as it taps market opportunity. Figure 6 suggests that the product type industry analysis should parallel the generic class industry analysis so that comparisons can be made.

The last step in the competition analysis is to assess *key* competitors. These are the specific competitor companies that are going to have the greatest impact on the new venture's ability to achieve objectives in markets. By conducting the overall industry analysis first, the analyst will have a sound perspective, by this time, to identify these key competitors. For manipulator arms, the key competitors for assembly manipulator arms are General Motors Fanuc (GMF), Asea, Unimation, and probably a relatively few other companies. So that comparisons can be made to see how the key competitors are positioned in their industry, the information on each key competitor should cover the items shown in Figure 7.

Forecasting Sales

As Figure 1 illustrated, forecasting sales is the last step in the MOA prior to conducting a comprehensive evaluation of market opportunity. Although it is beyond the scope of this article to review the many different techniques for forecasting, the nature of the task can be briefly examined. Essentially, forecasting involves anticipating how much buyers in product-markets will purchase in the future. For instance, IBM's forecasting for its PC new venture looked ahead more than a decade. Forecasting must rely on information that estimates important determinants of market opportunity. For this reason, forecasting should be attempted only after the other components of the MOA have been completed.

Generally, several kinds of forecasts are important. First, forecasts of sales for an entire generic class can be made. Forecasts of horticultural plants, industrial robots, or reinforcing materials fit into this category. Second, forecasts of particular product types in the class — house plants, assembly robots, or reinforced polymers — are also useful. Note that forecasts for a product type may be compared to those for the generic class to see the anticipated relative popularity of that product type against its competitors in the class. Third, sales of the company's brand are essential to the evaluation f market opportunity. Further, brand sales can be compared to product type sales (this is one way to measure predicted market share) to see how effective a company's brand strategy is expected to be.

Evaluating Market Opportunity

At this point in the MOA process, all the ingredients for an evaluation of market opportunity are available. The challenge is to put them all together into an overall picture of market opportunity. There are two different aspects to the evaluation. One is the very qualitative description of the market arena in which a brand will compete for business. This description includes five major components: (1) the structure of the market, (2) the market requirements of customers, (3) the capabilities and requirements of distributors, (4) the strengths and weaknesses of competition, and (5) the important environmental trends expected to cause change in market opportunity. Each of these factors plays an important role in planning marketing strategy for new venture.

Market structure provides a picture of the market groups or segments that are potential target markets for the company. An entrepreneur needs this input in order to select a targeting strategy. Market requirements must be met by the company's marketing mix (product, price, promotion, distribution, and services). Management must assess the capability of the company to successfully meet the requirements of each candidate segment. This assessment is an important factor in selecting which segments eventually become targets. Further, the requirements provide important guides as to what to build into each component of the marketing mix.

Channel capabilities and requirements determine how much work the entrepreneur must do in selling to the endorser versus how much can be farmed out to distribution specialists. This is especially

FIGURE 5

COMPONENTS OF CHANNEL PROFILES

What is the needed channel arrangement?
- Number of levels in channel
- Types and number of firms at each level
- Geographic coverage

What cooperation is needed from the channels?
- Advertising assistance
- Market coverage
- Pricing assistance
- Displays of product
- Personal selling presentations
- Inventory maintenance
- Product servicing

What incentives are required by channel?
- Price discounts
- Advertising allowances
- Ordering assistance
- Sales promotion allowances
- Delivery terms

What are the normal operating procedures of the channel?
- Terms of trade
- Functions performed at each level
- Typical order cycle and quantities
- Standard discounts

FIGURE 6

COMPONENTS OF AN INDUSTRY PROFILE

What industry is to be described?
- Name
- Geographic coverage

What is the industry's size, growth, structure?
- Number of firms
- Sales
- Market shares
- Industry structure
- Life cycle stage

What are the industry's marketing strategy and tactics?
- Market targets
- Marketing objectives
- Marketing mix

What changes in the industry's size and marketing strategy/tactics are anticipated?
- Size and strength
- Market targets

FIGURE 7

COMPONENTS OF A KEY COMPETITOR PROFILE

Who are the key competition?
- Companies serving the same markets
- Companies successful in meeting demand

What is the key competitor's financial size and strength?
- Sales
- Profit margin
- Total assets
- Debt
- Equity
- Various financial ratios

What are the key competitor's technical, marketing, and management capabilities?
- Mission and business objectives
- Market share position and trends
- Management capabilities and limitations
- Technical and operating capabilities
- Target market strategies
- Access to key resources

What changes are anticipated?
- Size and strength

important if the new venture does not have the resources to directly contact the final customer. In addition, existing channels may be able to readily accommodate the new product with very little increase in selling effort. The entrepreneur must know the distribution options and be able to identify the factors necessary to attract key distributors.

Competitive strengths and weaknesses must also be considered when selecting market targets. No company wants to enter market segments that are saturated with competitors. More often than not, the success of a new venture depends on finding market segments where the company can develop a competitive edge. Further, management will need guidelines on how to compete with key competitors in each target segment. The strengths of competitors must be matched or avoided, and the weaknesses must be scrutinized for possible ways to create differential advantages. Finally, environmental trends are important for determininghow stable or long-lasting the opportunity in market segments will be.

The other aspect of the evaluation of market opportunity is quantitative in nature. The forecasts of sales provide estimates of the magnitude of market opportunity. These estimates, in turn, are crucial for determining financial performance of a new venture. Analyses of profits, return on investment, payback periods, cash flow, and other such performance measures all depend on having accurate estimates of sales.

Ultimately, many different factors are likely to be considered in making the go or no-go decision on a new venture. No doubt, particularly the entrepreneurial kind of manager will always rely on subjective judgment or "feel" in making the final decision. In fact, an MOA is not intended to be a substitute for judgment. An MOA simply cannot eliminate all the risks and uncertainties that accompany new venture decisions. However, an MOA can help the entrepreneur clarify and better understand the dimensions of the risk and uncertainty. That is an MOA's real contribution — to help entrepreneurs see all facets of the opportunity as well as to understand the possible threats. In this way the MOA ensures that the judgment of an entrepreneur is an informed one. □

Competitive Analysis

One of the biggest impediments is the competition. **No business operates in a competitive vacuum, and there are plenty of other smart business owners looking to your target markets for their next sale.**

Business is competitive. Customers' needs and expectations shift. New products and different services fight for consumers' dollars. New players enter the market while others leave it.

What can you do about the competition? Plenty. Think of the comprehensive scouting reports that major league managers rely on. They carefully observe their competitors. They study everything about them that could possibly affect the outcome of a game. They know who the players are, what their strong and weak points might be, what strategies they use, what they tend to do in a pinch, what resources they can call on, and other information. You need at least as much information about your competitors.

Competitive analysis is an important part of your marketing plan. You can learn from your competitors and strengthen your business. You can predict their plans if you observe them closely. This takes work and close attention to detail. Most small business owners approach competitive analysis haphazardly. Set up a structured approach (think of major league baseball again) and seize a whopping competitive advantage.

Question 15: Who are your competitors?

Anyone who sells similar products/services in your marketplace, or similar products/services in other marketplaces, or who could sell similar products/services is a competitor. You compete for your target market's time and money. In the advertising cliche, you want to gain their Attention, Interest, Desire and Action (the mnemonic is AIDA)—but so do a lot of competing businesses.

Competitive analysis begins with identifying your immediate competition: Who are your five leading competitors?

As you fine-tune your analysis of the competition, you will want to add the less direct competition.

Future competitors may be the most threatening if your are in a highly desirable, rapidly growing market. But for most small business owners, just staying on top of the current market will be enough.

Remember: You aren't the only smart business owner out there. If you learn from your competitors, they can learn from you.

Business is competitive, and you have to scout out the competition.

Figure 4.1
Our Competitors

By: GL Date: 2/11/87

My closest competitors are:

1. Budge & Silverman
2. S, B & R
3. Rudy, Bornstein
4.
5.

Other competitors (include potential as well as actual) are:

1. Bigelow & Company
2. "Big Eight" Accounting Firms
3.

You have to learn a lot about your competition before you can make useful comparisons. Remember the major league scouting reports. A scout will follow a team for weeks, making copious observations on each player. Can he hit a curve? How about the shortstop's ability to go to his right? Do they use the hit-and-run, or prefer sacrifice bunts in the late innings? The scouting is organized, thorough, and professionally executed. Otherwise it's not sufficiently informative.

Business is competitive, and you have to scout out the competition. This may seem like spying. It is. A spy has to have some idea of his or her objectives. So do you. The information you gather should have a purpose and a structure that is updated periodically. This information sets your marketing strategies.

Use Figure 4.2: Competitor Information to organize your scouting reports. Much of the information is readily available from Dun & Bradstreet and other publicly available reports. Your banker can get this information for you, or you can piece it together yourself. Fill in these forms for each serious competitor, and keep the forms on file. Over a year or so you will develop a most informative dossier on your competition.

This is an area where knowledge is power. For many of us, the problem is gaining that knowledge. There are few shortcuts—but the process is simple enough. You build the dossier piece by piece, over time, using the competition's advertising, press releases, promotional materials of all kinds, your own observations, and comments from vendors, customers, employees, friends, and your business advisors. As the file grows, you will know enough about your competitors to anticipate their moves, learn from their strengths and weaknesses, and increase your competitive advantage.

Don't feel badly about doing this. Your stronger competitors are doing this with you already.

Figure 4.2
Competitor Information

Prepared by: GL Date: 2/11/87

Competitor: S,B & R

Product/service: Tax preparation and accounting services

Location(s): Portsmouth

Specific information:

Years in business: 24

Number of employees: 20

Dollar sales: $3,000,000

Unit sales:

Market share: Approximately 20%

Financial strength: Excellent

Profitability: ?

Players (include their ages, experience in this business, training or education, strengths and weaknesses, and other pertinent information):

President/owner:

Outside advisors:

Key employees:

The competition's marketing strategy:

Pricing: Accounting services: low Taxes: high

Advertising themes: none

Promotion/public relations efforts:

Significant changes (new people, products, etc.):

How this competitor competes with you: More conservative

Comments: I need to do more research to finish this!

Your top competitors look at your business for ideas. Do the same to theirs.

Do your competitors see a weakness in your business or a market potential you missed? Your top competitors look at your business for ideas. Do the same to theirs. Your aim is to find out how you stack up against your competition. What are their strengths relative to yours? Where do you differ?

Many businesses go beyond scouting the competition. They have themselves scouted ("shopped") in order to have an unbiased appraisal of how they measure up against the competition.

Some questions you might want to raise are:

1. How are your competitors financed?
2. Can they raise more money? A division of a larger company, for example, has a potential advantage over a small business in this area.
3. Are they heavily in debt? This would make price competition dangerous to them.
4. Are they investing in new products or services? Why?
5. What training do they give their personnel? Small business owners are notoriously unwilling to provide adequate training. This can be exploited.
6. What image (if any) are they trying to develop?
7. What are their target markets?
8. Do they compete on price, quality, service, or convenience?

Question 16: What do your competitors do better than you?
Question 17: What do you do better than your competitors?
One application of Figure 4.2 is to alert you to your competitors' strengths and weaknesses relative to your business.

Maybe they have a better product, a more motivated sales force, or better cost and quality controls which result in a price advantage. Maybe they have a superior location or a better distribution system. Or perhaps they are instituting a strong sales training program.

Once you know what their strengths are, learn from them. Avoid their weaknesses in your own business, but be ready to attack them with your marketing strategies. There usually is little difference between one small business and another. Those little differences, though, are what separate a profitable, enjoyable business from struggling businesses.

Use Figures 4.3 and 4.4 as guidelines.

In Figure 4.3: Comparing Yourself to Competitors, write down what your competition is doing in the five principal comparison areas. Then, in the last column, jot down how you stack up in these areas.

Figure 4.3
Comparing Yourself to Your Competitors

Prepared by: Q Date: 2/11/87

Competitor: SB&R

	Describe your competitor's:	How do you stack up?
Price	High	Lower, but headed up
Quality	OK	Even better
Service	OK	Even better
Location	Good	Poor – we are changing to a better area
Advertising	None	Aggressive
Other yardsticks	Been around a long time	Relatively new

The other yardsticks might be product lines, staffing, sales practices, or whatever you find to be important competitive information for your business. But you have to know how you compare on the other listed items to differentiate your company from the competition.

All five major yardsticks are far more detailed than you may at first think. For example, consider advertising.

Look carefully at all of the competitor's advertising. What are they trying to say? Do they feature price, delivery, or reliability? Do they focus on one strength—for example, technical skill or convenience? How important do you think their advertised benefits are to the targeted market? Where do they advertise—trade journals? Radio or newspaper? Billboards? Is their advertising more effective than yours? Should you review your advertising?

Figure 4.4: Quick Comparison provides a list of comparisons based on what your customers are looking for. If you have been listening to your market, this form can provide valuable insights for your marketing strategies—and provide more ways to differentiate your business from the others.

Your marketing strategy should be based on your strengths, the competition's weaknesses, and the market's desires.

Figure 4.4

Quick Comparison—Benefits Offered to Our Customers

Customer seeks:	Competitor offers	We offer
Quality		
Exclusivity		
✓Lower prices		Ours lower than competition
Product line		
✓Product service	Depends on size of account	More handholding
Reliability		
✓Delivery		Always meet deadlines
✓Location	Downtown	Easy access & will visit clients
✓Information	Newsletter	News releases & seminars
✓Availability		Always when needed, including evenings and weekends
Credit cards		
Credit line		
✓Warranty		If not satisfied, client pays no fee
✓Customer advice		Always provided
Accessories		
✓Knowledgeability		Take courses every year
Polite help		

Your marketing strategy should be based on your strengths, the competition's weaknesses, and the market's desires.

Shore up weak areas in your business to become more competitive. This can pay off fast. For example, if analysis shows that you have surly clerks and a dingy store while the competitors have trained their clerks to be polite and provide a clean, well-lighted, spacious store, your first move would be to clean house. The next step would be to advertise the change widely and build on whatever strengths you originally had. Think of how the auto parts industry changed in response to competitive pressures from large stores such as Sears and K-Mart. The mechanics' macho havens are on the way out, and newer stores (ADAP for one) have carved out a highly profitable niche by changing the image of auto parts stores.

Question 18: What is your competitive position?
Locate yourself on the competitive continuum in Figure 4.5. A visual reminder of where you are helps stimulate and motivate your employees in the same way that knowing your position in a league helps you knuckle down to improve your own skills.

Figure 4.5
Competitive Continuum

Strong ____+____|____-____Weak

Where are you located on this continuum? What are you going to do about it?

How do you rank relative to the competition in these areas? A '+' means you are stronger than the competition, a '-' means you are weaker.

Strong ____+____|____-____Weak

Finances	—
Marketing	—
Pricing	+
Selling	+
Production	+
Distribution	
Training	—
Personnel	—

Summary for Chapter Four

1. You have identified your competition and have begun to collect detailed information on them (Figures 4.1 and 4.2).
2. You know your relative competitive position, based on a careful assessment of your leading competitors (Figure 4.5).
3. You know how you stack up against the competition on some specific points, which helps establish strategic directions on the "build on your strengths and attack their weaknesses" principle (Figures 4.3 and 4.4).
4. This gives you the information to set realistic and attainable competitive objectives for the next year. Figure 4.6: Competitive Objectives summarizes these goals. You will be referring back to Figure 4.6 in your marketing plan.

These objectives don't need to be detailed here. You will consider other aspects of your competitive position before writing your final marketing plan. While these preliminary objectives are very important as indicators for your planning, they will most likely be substantially modified by the time you flesh them out.

Figure 4.6
Competitive Objectives

Prepared by: GL Date: 2/11/87

Reviewed by: ______ Date: ______

We need to improve our competitive position in these areas:

1. Finances
2. Marketing
3. Training our personnel

We can build on our competitive strengths in these areas:

1. Selling
2. Production
3. Personnel

We can attack our competition in their weak areas:

1. Service
2. Offer business consulting in addition to accounting services
3. ______

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SBA

Researching Your Market

By J. Ford Laumer, Jr.
James R. Harris
Hugh J. Guffey, Jr.
Assistant Professors of Marketing
Auburn University
Auburn, Alabama

Robert C. Erffmeyer, Ph.D.
Assistant Professor of Marketing
Western Kentucky University
Bowling Green, Kentucky

Summary

To be successful, a small business must know its market. Marketing research is simply an orderly, objective way of learning about people—the people who buy from you or might buy from you.

This publication provides an overview of what market research is and how it's done. It introduces inexpensive techniques that small business owner-managers can apply to gather facts about their customers and the people they'd like to have for customers.

Trash and Peanuts

Some marketing research material is nothing but garbage. Marketing research can be done for peanuts—even with peanuts. Shocking statements? Perhaps, but both of them are literally true.

Take garbage, for instance. Inspection of outgoing waste has been a practice of many small restaurants. Initially, many people may order the flounder a la marzipan because of the novelty of this dish; but if a restauranteur finds most of it leaving the tables uneaten, it better come off the menu because it won't be in demand much longer.

You can use trash positively, too, to find out what people like. It may not be very dignified to check trash cans for cartons and containers, but they are direct indications of what consumers are buying. You could also find out what competitors are selling (or at least ordering) by checking their trash as well.

The point here isn't to turn you into a scavenger, but to suggest that marketing research isn't done only by sophisticated staffs of statistical technicians working with powerful computers and grinding up figures from elegant surveys. Marketing research doesn't have to be fancy and expensive.

It can be done with peanuts, as one creative discount merchandiser discovered. During a three-day promotion the merchant gave away free to customers ". . . all the roasted peanuts you can eat while shopping our store." By the end of the promotion the merchant had "litter trails" that provided information on the traffic pattern within the store. Trampled peanut hulls littering the most heavily traveled store aisles and even heaped up in front of displays of merchandise of special interest to customers. In short, the merchant learned how they acted in the store and what they wanted and observed their behavior.

What Is Marketing Research?

Basically, marketing research is just what the merchant did with the peanuts. Find out what catches customers' attention by observing their actions and drawing conclusions from what you see. To put it more formally, in the words of the American Marketing Association, marketing research is "the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services."

Marketing research is an organized way of finding objective answers to questions every business must answer to succeed. Every small business owner-manager must ask:

Who are my customers and potential customers?

What kind of people are they?

Where do they live?

Can and will they buy?

Am I offering the kinds of goods or services they want—at the best place, at the best time and in the right amounts?

Are my prices consistent with what buyers view as the products" values?

Are my promotional programs working?

What do customers think of my business?

How does my business compare with my competitors?

Marketing research is not a perfect science; it deals with people and their constantly changing likes and dislikes which can be affected by hundreds of influences, many of which simply can't be identified. Marketing research does, however, try to learn about markets scientifically. That, simply, is to gather facts in an orderly, objective way; to find out how things are, not how you think they are or would like them to be; what people what to buy, not just what you want to sell them.

Why Do It?

It's tough—impossible--to sell people what they don't want. (Remember the Nehru jacket?) That's pretty obvious. Just as obvious is the fact that nothing could be simpler than selling people what they do want. Big business has to do marketing research to find that out. The same reason holds for small business.

For once, small business holds an edge. The giants hire experts to go out and discover what's what in the mass market in which they sell. Owner-managers of small business are close to their customers; they can learn much more quickly about the likes and dislikes of their specific customers. They can react quickly to changes in their customers' buying habits.

Small business owners often have a "feel" for their customers—their markets—that comes from years of experience. Experience can be a two-edged sword, though, since it comprises a tremendous mass of facts acquired at random over a number of years. Information about markets gained from long experience may no longer be timely enough to base selling decisions on. In addition, some "facts" may be vague, misleading impressions or folk tales of the "everybody knows that. . ." variety.

Marketing research focuses and organizes marketing information. It insures that such information is timely. It provides what you need to:

Reduce business risks.

Spot problems and potential problems in your current market.

Identify and profit from sales opportunities.

Get basic facts about your markets to help you make better decisions and set up plans of action.

How Do You Go About It?

You probably do some market research every day in the course of your routine management activities without being aware of it. You check returned items to see if there's some pattern. You ask one of your old customers, who has stopped coming to your shop, why he hasn't been in lately when you run into him on the street. You look at a competitor's ad to see what that store is charging for the same product you're selling.

Marketing research simply makes this process more orderly. It provides a framework that lets you objectively judge the meaning of the information you gather about your market. The following flow chart shows the steps in the marketing research process:

V Define problem (limit and state clearly)

V Assess available information

V Assess additional information, if required

---

1. Review internal records and files
2. Interview employees
3. Consult secondary sources of information
4. Interview customers and suppliers
5. Collect (or have collected) primary data

V

V Organize and interpret data

V Make decision

V Watch the results of the decision

Defining the Problem

This, the first step of the research process, is so obvious that it is often overlooked. Yet, it is the most important step of the process.

You must be able to see beyond the symptoms of a problem to get at the cause.

Seeing the problem as a "sales decline" is not defining a cause, it's listing a symptom.

In defining your problem list every possible influence that may have caused it. Has there been a change in the areas your customers have traditionally come from? Have their tastes changed? Put all the possible causes down. Then set aside any that you don't think can be measured, since you won't be able to take any action on them.

You must establish an idea of the problem with causes that can be objectively measured and tested. Put your idea of the causes in writing. Look at it frequently while you're gathering your facts to keep on track, but don't let it get in the way of the facts, either. (Incidentally, while this publication speaks of "problems," the same techniques can be used to investigate potential opportunities, too.)

Assessing Available Information

Once you've formally defined your problem, you should assess your ability to solve it immediately. You may already have all the information you need to determine if your hypothesis is correct, and solutions to the problem may have become obvious in the process of defining it. Stop there. You'll only be wasting your time and money if you do further marketing research.

What if you aren't sure whether or not you need additional information at this point? What if you'd feel more comfortable with additional data? Here, you've got to make a subjective judgment to weigh the cost of more information against its usefulness. You're up against a dilemma similar to guessing in advance your return on your advertising dollar. You don't know what return you'll get, or even if you'll get a return. The best you can do is to ask yourself how much making a wrong decision will cost and to balance that against the cost of gathering more data to make a better informed decision.

Gathering Additional Information

Think cheap and stay as close to home as possible. Before considering anything fancy like surveys or field experiments, look at your own records and files. Look at sales records, complaints, receipts, or any other records that can show you where your customers live or work or how and what they buy.

One small business owner found that addresses on cash receipts allowed the pinpointing of customers in his market area. With this kind of information he could cross reference has customers' address and the products they purchased. From this information he was able to check the effectiveness of his advertising placement.

Your customers' addresses alone can tell you a lot about them. You can pretty closely guess your customers' life-styles by knowing what the neighborhoods they live in are like. Knowing how they live can give you solid hints on what they can be expected to buy.

Credit records are an excellent source of information about your markets, too. In addition to the always valuable addresses of real customers, they give you information about customers' jobs, income levels, marital status. Granting credit, so it can be seen, is a multifaceted marketing tool—though one with well-known costs and risks.

When you've finished checking through your records, go to that other valuable internal source of customer information—your employees. Employees may be the best source of information about customer likes and dislikes.

They hear customers' minor gripes about your store or service—the ones the customers don't think important enough to take to you as owner-manager. They are also aware of the items customers request that you may not stock. Employees can probably also give you pretty good seat-of-the-pants customer profile from their day-to-day contacts.

Going Outside for Marketing Research Data

Once you've exhausted the best sources for information about your market, your internal data, where do you go? Well the next steps in the process are to do primary and secondary research on the outside.

Secondary research first. Naturally, since it's called secondary research, you do it before you undertake any primary research. Secondary research simply involves going to already published surveys, books, magazines and the like and applying or rearranging the information in them to bear on your particular problem or potential opportunity.

For example, say you sell tires. You might reasonably guess that sales of new cars three years ago would have a strong effect on present retail sales of tires. To test this idea you might compare new car sales of six years ago with the replacement tires sales from three years ago.

Suppose you found that new tire sales three years ago were 10 percent of the new car sales three years previous to that. Repeating this exercise with car sales five years ago and tire sales for two years ago and so on, you might find that in each case tire sales were about 10 percent of the new car sales made three years before. You could then logically conclude that the total market for replacement tire sales in your area this year ought to be about 10 percent of the new car sales in your locality three years ago.

Naturally, the more localized the figures you can find the better. While, for instance, there may be a decline nationally in new housing starts, if you sell new appliances in an area where new housing is booming, you obviously would want to base your estimate of market potential on local conditions. Newspapers and local radio and TV stations may be able to help you find this information.

There are many sources of such secondary research material. You can find it in libraries, universities and colleges, trade and general business publications, and newspapers. Trade associations and government agencies are rich sources of information.

Primary research, the last step. Primary research on the outside can be as simple as your asking customers or suppliers how they feel about your store or service firm or as complex as the surveys done by the sophisticated professional marketing research giants. It includes among its tools direct mail questionnaires, telephone or "on the street" surveys, experiments, panel studies, test marketing, behavior observation, and the like.

Primary research is often divided into "reactive" and "nonreactive" research. The "peanut shell study" at the beginning of this publication is an example of nonreactive primary research: it was a way of seeing how real people behaved in a real "market situation" (in this case how they moved through the store and which displays attracted their attention) without influencing that behavior even accidentally.

Reactive research (surveys, interviews, questionnaires) is probably what most people think of when they hear the words "marketing research." It's the kind best left to the experts, since you may not know the right questions to ask. There's also the danger that either people won't want to hurt your feelings when you ask them their opinions about your business or they'll answer questions the way they think they are "expected" to answer, rather than the way they really feel. If you feel you can't afford high-priced marketing research services, ask nearby college or university business schools for help.

What You Can Do

Marketing research is limited only by your imagination. Much of it you can do with very little cost except your time and mental effort. Here are a few examples of techniques small business owner-managers have used to gather information about their customers.

License plate analysis. In many states license plates give you information about where a car's owner lives. You can generally get information from state agencies on how to extract this information from license numbers. By taking down the numbers of cars parked in your location you can estimate your trading area. Knowing where your customers live can help you aim your advertising for good effect. Or, how about tracing your competitors' customers using the same approach to win them for your business.

Telephone number analysis. Like license numbers, telephone numbers can tell you the areas in which people live. You can get customers' telephone numbers on sales slips, from checks and credit slips, and the like. As noted, before, knowing where your customers live can give you an excellent idea of the way they live and what they like.

Coded coupons and "tell them Joe sent you" broadcast ads. You can check the relative effectiveness of your advertising media by coding coupons and by including phrases customers must use to get a discount on some sale item in your broadcast ads. This technique may also reveal what areas your customers are drawn from. Where they read or heard about the discount offered in your ads will also give you information about their tastes.

People watching. You can learn a great deal about your customers just by looking at them. How are they dressed? How old do they appear to be? Are they married? Do they have children with them? This technique is obvious and most owner-managers get their feel for their clientele this way. But how about running a tally sheet for a week keeping track of what you're able to tell about your customers from simple outward clues? It might just confirm what you've thought obvious all the time, but it might also be instructive.

Do, Don't Overdo

The key to effective marketing research is neither technique nor data—it's useful information. That information must be timely; your customers' likes and dislikes are shifting constantly. You'll never know everything about a particular problem any-way. It's much better to get there on time with a little than too late with a lot. If you spend too much time gathering too much data going for a sure thing, you may find your marketing research is nothing but garbage.

We hope this publication has met your business needs. SBA has a number of other programs and services available. They include training and educational programs, advisory services, financial programs, and contract assistance. Our offices are located throughout the country. For the one nearest you, consult the telephone directory under U.S. Government or call the Small Business Answer Desk at 1-800-U-ASK-SBA. In Washington, D.C., call 202-205-777.

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PRODUCT/SERVICES MARKETING

UNIT 3

Title: **PRODUCT/SERVICES MARKETING**

Purpose: To analyze your product(s) and/or services and consider new product development to improve the sales volume of the business.

Objectives: Upon completion of this unit, participants will:

- have evaluated their products/services as one part of their marketing strategy and marketing plan;
- have decided whether or not to introduce new products and, if so, how; and
- have addressed the special nature of marketing services as that relates to their businesses.

Materials:

Transparency 3-1:	Products and Services: One Part of a Successful Business
Transparency 3-2:	Customer Perceptions
Transparency 3-3:	Product Life Cycle
Transparency 3-4:	For Each of Your Products and Services
Transparency 3-5:	Expand Your Product/Service Lines
Transparency 3-6:	Product/Service Improvements?
Transparency 3-7:	Substitute Ways to Satisfy Your Customers?
Transparency 3-8:	New Strategies for Your Products/Services?
Transparency 3-9:	Internal Consistency of Your Product Line
Transparency 3-10:	Financial Performance
Transparency 3-11:	Your Unique Selling Proposition?
Transparency 3-12:	New product Development Process
Transparency 3-13:	Product Strategy Development
Transparency 3-14:	Sources for New Product Ideas
Transparency 3-15:	New Product Screening Criteria
Transparency 3-16:	Testing
Transparency 3-17:	How Are Services Different?
Transparency 3-18:	Relationship of Tangible and Intangible Elements
Transparency 3-19:	How Do You do Services Marketing?

Handout 3-1:	Product Comparison Form
Handout 3-2:	Winners and Losers
Handout 3-3:	Differentiation Promise and Opportunities
Handout 3-4:	New Product Screening Criteria
Handout 3-5:	Twenty-One Warning Signals
Handout 3-6:	Services Marketing is Different

Estimated Time:

Evaluating Your Products and Services	90 minutes
New Product Development	60 minutes
Services	30 minutes

UNIT 3

PRODUCT/SERVICES MARKETING

CONTENT	PROCESS
A. Review the Session Objectives	
By the conclusion of the session, we will have discussed the products and services you offer to see if any improvements can be made to improve your profitability. Also, are there new products or services to consider offering and, if so, how can you do it? And, how are services vs. tangible products unique. Do they require a different marketing approach?	Welcome the participants and introduce the session.
B. Show how product/service decisions are part of marketing strategy and the marketing plan.	Show TP 3-1: Products and Services: One Part of a Successful Business.
You will recall from the past two sessions that the products and services you offer are part of marketing. Marketing strategy encompasses defining your target markets, your marketing objectives and your marketing mix or program. The marketing program includes products/services, pricing, distribution and promotion. So today we focus on product and service decisions, which are also, of course, part of your marketing and business plan.	
C. What is a Product?	
Anything that is potentially valued by a target market for the benefits or satisfactions it provides, including	Show TP 3-2: Customer Perceptions

CONTENT	PROCESS
objects, services, organizations, places, people and ideas.	
Depending on the perspective you take, a product may be a "thing," a bundle of customer satisfactions and a set of customer benefits. It is very important to see your products and services as your customers see them. They want your products and services because of the benefits and/or satisfactions that are provided to them. As you know, what matters is not how you see your products and services, but how your customers see them. The tangible features of a product such as quality and packaging affect perceptions. And even factors beyond the product, the extended product, such as promotion and warranties affect how customers see your products and your business. As shown here, all of these types of factors affect customer perceptions. Take a moment, and think about all of the factors which lead to your customers' perception of your products and services. Write them down very quickly. Are any of these factors negative? If so, can you consider changing them? Would it be possible? Would someone share their thinking about this matter with the group?	Ask participants to use TP 3-2 and identify key factors that affect their customers' perceptions. Ask one or two participants to explain their thinking.
D. The Product Life Cycle	
Where are your products and services in the product life cycle? As shown here, products and services usually go through a cycle from the initial development and introduction in the marketplace to growth, maturity and, finally, sales decline. It is difficult to	Show TP 3-3: Product Life Cycle Encourage a brief discussion of 1—2 participants about their products and the PLC.

CONTENT	PROCESS
be certain which stage your products are in. Also, the length of time varies greatly for different products from stage to stage.	
Yet this says one thing very clearly. The demand for your products and services will one day decline. Sometimes you can extend the length of the maturity stage with product improvements. But eventually, demand will decline for nearly all products and services. This means, therefore, that small businesses must, over time, seek better or different products to extend the life of their businesses.	
Where in this cycle are the products and services you sell? How long will it be before they reach the maturity or decline stage?	
E. Review your Existing Products/ Services	
Let's look at your leading products or services and see if your business can somehow be made more profitable. Let's use the ideas that were in your reading to do this. Why do your customers buy your products and services? You may want to refer to Figure 2.1 "Why Do People Buy Things?" (see Reading "Market Planning Guide" by D. A. Bangs). In these handouts, list one of your products and services on each and fill in the exercise. If you have a large number of products you may want to select a certain type or category of products. First, complete the left	Distribute HO 3-1: Product Comparison Form. (2—3 copies per participant)

CONTENT	PROCESS
column about your product. Then, quickly complete the right side about your leading competitor. This next week, please complete one of these for each product and service you offer (or major type).	
(Allow 10 minutes) Would someone tell us what your product benefits are? Or satisfactions to your customers? (discussion)	
And now, what are the advantages and disadvantages of your products as compared to your competitors'? Would someone share their comparisons?	
1. Other questions to answer about your products and services.	
a. For each product or service: Is it a winner now? Will it be in the future? Should you continue to sell it? Does it help to sell other products? Should you give the product more financial or marketing support?	Present TP 3-4: For Each of Your Products and Services
b. Should you expand your existing product/service lines? Are there related products that your customers want that you can profitably sell? Do you ask these questions every few months?	Show TP 3-5: Expand Your Product/Service Lines?
c. Can you make any improvements in your products or services? But weigh the advantages against the chance that customers are happy (and competitors are unhappy) already. And customers rarely like major changes.	Show TP 3-6: Product/Service Improvements?

CONTENT	PROCESS
d. Are any substitute ways to meet your customers needs being developed? Watch for unexpected technologies or other changes. Messenger services, for example, in the United States are being impacted by the common use of the fax machine.	Show TP 3-7: Substitute Ways to satisfy Your Customers?. Encourage one or two people to cite ideas.
e. Can you identify new strategies for your existing products and services? Are there possible new uses for your products? (basketballs for industrial floats in reading.) Your products to new markets? Many smaller firms become trapped in a status quo mind set rather than thinking of related opportunities with existing products and services.	Show TP 3-8: New Strategies for Your Products/Services?
f. Are your products and services consistent with each other to serve your defined target market and to build a consistent image of your company? Selling tires and children's clothing may send confusing signals to your markets.	Show TP 3-9: Internal Consistency of Your Product Line
2. Financial Performance	
Which product/service yields the greatest financial return? What is the volume of each? What are the associated direct costs and overhead? Do some of your products lose money? Is there a good reason to keep them anyhow (e.g., fill out a product line to fully serve customers, image, etc.)?	Show TP 3-10: Financial Performance

CONTENT	PROCESS
Can you develop enough cost accounting type information on each product (or major type of product) to decide whether or not each is profitable?	Distribute HO 3-2: Winners and Losers
For each of your products and services, what would you estimate they contribute to overhead and profit? Enter your estimate on this Winners and Losers Worksheet. Over the next few days you may need to develop more accurate cost estimates.	Encourage discussion of possible product/service drops and related issues.
Should you delete certain products and services from what you sell?	
As noted in your reading, some products are profitable with little effort and expenses (cash cows), others require effort but are the profit makers in the future (rising stars), others are money losers (dogs). It is important to decide which of your products fit in these categories. And then delete some if necessary and add others.	
Important: Be careful not to let your personal ego or past decisions cloud the decisions that should be made today!	
3. What is the Unique Selling Proposition of each of your products/services?	
Should you differentiate your products/services from your competitors? Can you create a market niche by making your products/services different from competitors and therefore better serve a specific target market?	Show TP 3-11: Your Unique Selling Proposition
As noted in your reading, there are many ways that this can be done	

CONTENT	PROCESS
through use of the marketing mix — different product, packages, brands, prices, promotion, delivery, convenience and follow-up service.	
Discuss Differentiation Promise and Opportunities.	Distribute HO 3-3: Differentiation Promise and Opportunities
F. Should You Develop or Add New Products?	
If you are a retailer or a distributor, this occurs just by selecting new products that become available. Even then it is important to carefully select the right products. And what we discuss here will help you think about this as well. But if you are a producer of goods or services, then the process is much more demanding. Depending on the nature of your products or services, it may be a one-week process or a process that takes years.	
As shown here, there are several steps that a business typically goes through to introduce a new product. Although many small business owners do not follow such an orderly, logical process, there is evidence that doing so improves the chances of success. Even companies which do follow these steps have one-third or more of their new products fail — so it is a difficult task.	Show TP 3-12: New Product Development Process
This process has been used successfully by a very successful worldwide consulting company, Booz•Allen and Hamilton in advising their clients.	
Although the most obvious reason to create new products is that there are problems selling existing products, you	

CONTENT	PROCESS
may also want to add products to use excess plant capacity, to pursue opportunities to use by-products and left over materials, to more fully use your personal selling organization, to offset other fluctuations in your business, or simply to pursue other profitable opportunities.	
How many of you have added new products in the past year or expect to do so this next year?	
1. Product Strategy Development	Show TP 3-13: Product Strategy Development.
Do not add just any potentially profitable product! Do different types of product ideas fit within your business mission, your business strategy and your marketing plan? If not, are they sufficiently profitable to justify redesigning the nature of your business? Do the products fit well with your internal capabilities, product/market experience and industry and environmental changes? Where do our existing products fit within the product life cycle? Should this be a cause for concern?	
2. Idea Generation	
This involves using various idea sources and idea generation techniques to identify new ways to satisfy needs.	Show TP 3-12 again.
As shown here, there are many sources of ideas, and it is worth the time to talk with many of these types of people to seek their ideas. Direct observation of competitors and customers' evaluation of competitors can be very revealing. Others in your business who are	Show TP 3-14: Sources for New Product Ideas

CONTENT	PROCESS
in contact with the marketplace can also be very helpful. Also, there are many techniques you can use to encourage creative thinking, such as a free thinking "brainstorming" session with your employees or customers to generate 50 or 75 ideas. Or focus group interviews (discussed in the last marketing unit). Also, there are methods such as "consumer preference testing" that can be used to show combinations of product features that different customers want. For a candy bar, for example, differing levels of sweetness may be combined with differing levels of softness (to hard) and a new candy bar could be created based on these different features (relative to your existing products and competition). If you can, write down one or two product/ service ideas you have had.	
3. Screening New Product Ideas	
This involves using criteria to evaluate the potential of new product ideas. Few product ideas are worthy of being offered to the market, so a screening process should be used to eliminate most of them.	Show TP 3-15: New Product Screening Criteria and distribute to the participants HO 3-4.
How do the better ideas generated rate against these criteria? Are there other criteria that you should add for ideas to meet your requirements? How do the ideas which you wrote down measure up against each of these criteria? For each criterion, is your	

CONTENT	PROCESS
idea excellent, good, fair or poor?	
Our objective is (1) to not reject an idea that could be very successful for our company and, (2) not accept an idea that later fails.	
You can use these criteria in your business to evaluate other ideas.	
4. Business Analysis	
The fourth step is an in-depth study of the economic feasibility of the new product idea. You use market opportunity analysis from the last session to estimate revenues. And detailed cost information is obtained. And then the probable feasibility is estimated, using projections, break-even analysis and/or a payback period analysis.	Show TP 3-12 again
In small businesses, it is critical to assess the impact on cash flow as well.	
5. Product/Service Development	
This step involves developing the product or service itself and further development of manufacturing, packaging, and distribution cost estimates.	Show TP 3-12 again
This can involve building an engineering prototype, engaging in functional testing, and designing tentative supporting activities such as packaging design or evaluating distribution alternatives.	
At this stage, we answer the question, "Does it work?", whether it is a machine or a service.	

CONTENT	PROCESS
6. Testing	
The testing stage thoroughly evaluates potential market acceptance through the use of market research. (Refer back to the last session, market opportunity analysis, and briefly cite: Concept Testing Product Use Tests Test Marketing	Show TP 3-12 again and then TP 3-16: Testing
7. Commercialization	
This is the actual introduction of the product into the marketplace, with all of the related decisions and commitment of resources.	Show TP 3-12 again
If the final decision is to "go," then all of the numerous activities are launched to put the product in the marketplace.	
Contracts with suppliers, selecting distributors, preparing to manufacture or contract production, hiring salespeople, developing a marketing strategy and much more may be involved.	
The timing of introduction may still be a major decision and also how quickly the product is "rolled out" must be decided.	
If there remain major uncertainties, a slow rollout may be helpful to further test market acceptance and to make marketing adjustments. But this may also give competitors a chance to react with aggressive strategies.	
To conclude, new product/service development is usually essential to prolong the life of a business as old	

CONTENT	PROCESS
products die. Also, small businesses can reduce the risks threatening survival by reducing dependence on one type of product or service.	
Many years ago, the U.S. Small Business Administration published a list of 21 warning signals for small businesses developing products that are still good today. As you move forward to introducing new products, look at this list and see if you need to make adjustments.	Discuss HO 3-5: Twenty-One Warning Signals
G. Services Marketing	
1. How do services relate to your business?	Facilitate a brainstorming discussion to identify a wide variety of types of services.
Services are the result of labor that does not result in a physical product. They may be sold to others but they are intangible and do not result in the ownership of anything. Services may be tied to tangible products or not.	Include services that are sold to customers by themselves and also services that accompany tangible goods.
2. How are Services Different from Physical Products?	Show TP 3-17: How are Services Different?
a. Intangible	
One of the most important differentiating characteristics of services is their intangible nature. A good is an object, a device, a thing; a service is a deed, a performance, an effort. When a good is purchased, something tangible is acquired — something that can be seen, touched, perhaps smelled, worn, or placed on a mantel. When a service is purchased, there is	

CONTENT	PROCESS
generally nothing tangible to show for it. Services are consumed but not possessed.	
Most offerings in the marketplace involve both tangible and intangible elements, so the distinction here is one of degree and emphasis. With services, the intangible elements are dominant. A fast-food outlet is a true blend of services and tangible products.	
Airlines could not deliver their transportation services without planes, but in contrast to buying an automobile, when these services are bought, the dominant product purchased is an intangible experience that is left behind at the airport.	Show TP 3-18: Relationship of Tangible and Intangible Elements: Goods versus Services
As shown here, in marketing tangible products, marketing messages usually emphasize the intangible benefits. With services, this is reversed.	
b. Blending of Production and Consumption	Show TP 3-17 again.
A second difference between goods and services is that the sale of goods usually means that an object is transferred from inventory to a customer, whereas the sale of services involves interaction between the producer and the customer. The producer and the production of the service are both present at the point of receipt by the customer. This characteristic of services has several implications.	

CONTENT	PROCESS
First, the direct producer-customer relationship provides an opportunity to be very customer oriented, even to the point of customizing the service to meet specific needs. Second, the face-to-face (labor-intensive) nature of the services industry means that although on-the-spot customizing may offer advantages, delivery of a standardized product of consistent quality presents a special challenge. Quality standards and control must receive emphasis in employee training. Third, the blending of production and consumption usually means that there is no inventory "cushion." Matching supply with demand becomes especially critical for management. Procter & Gamble maintains an inventory of Ivory Soap, in part to absorb variations in demand. But what if 200 people arrive for a "Starting a Business" seminar and the room capacity is 150? With face-to-face production and consumption, marketing targets demand to equal but not exceed supply. For this purpose, several demand-influencing strategies can be used — raising prices in periods of peak demand, increasing nonpeak demand to balance out capacity needs, and instituting reservation systems. c. Services Distribution Channels With the growth of information-based industries have come	

CONTENT	PROCESS
unorthodox, electronic "channels of distribution." Whether a standard telephone call or a computer modem is used, no physical transfer of goods occurs, yet a service is delivered. In most service businesses, the channel is very short or nonexistent (face-to-face transfer is the most common arrangement). A restaurant has the factory, retail outlet, and point of consumption rolled into one.	
Part of an information service may be distributed through the media. Investment information may be conveyed through newspapers or television in the hope that part of the audience will sign up for face-to-face counseling.	
3. How Do You Do Services Marketing?	Present TP 3-19: How Do You Do Services Marketing?
a. Internal Marketing	
- Part of the product is human performance	
- So high contact businesses need internal marketing — i.e., marketing to employees	
- Employee of the month awards based on customer feedback and Financial Incentives	
- Set clear standards for behavior and use peer group control. (Architects review each others work, e.g.)	

CONTENT	PROCESS
- Walmart Corp. and Marriott Corp. engage in marketing to motivate their employees to be service and quality oriented.	
- Satisfy the needs of internal customers (employees) so as to serve the needs of external customers.	
- Service Master Company	
Housekeeping, Food Service and Equipment Maintenance for Hospitals, Schools Industrial Cos. "Help People Grow" and "Be Something"	
b. Customizing Service	
Banks provide incentive for tellers to learn customer's names — and some assign "personal banker" service with an assigned banker.	
Auto repair businesses list up-coming needs on customer invoices.	
Need to decide when and how much customizing to also control costs.	
b. Product Design	
Manage the <u>tangible</u> evidence to provide positive signals to customers	
Hyatt Hotels--Impressive Lobbys Pediatrician—Disney pictures, balloon Superman	

CONTENT	PROCESS
Appearance of Service Providers LOT Flight Attendants Disney Theme Park Employees	
d. Pricing	
Bigger is not necessarily better. Unlike product of a standardized good. (e.g., Hotel size) No scale economics to reduce costs?	
Difficult for Customers to Evaluate Services Quality	
Price can be a signal to indicate quality — e.g., training program price? Sometimes higher price leads to higher demand.	
H. Conclusion	
This session has been to discuss how to evaluate your existing products and services, consider the addition of new products and services and to also recognize the importance of services and their unique marketing aspects. As you return to your businesses, I hope you will use this thinking to benefit your businesses and develop your marketing and business plans.	Provide the participants with HO 3-6: Services Marketing is Different for later reading.

PRODUCTS AND SERVICES: ONE PART OF A SUCCESSFUL BUSINESS

Product/Service Decisions

↓ ↑

Marketing Strategy

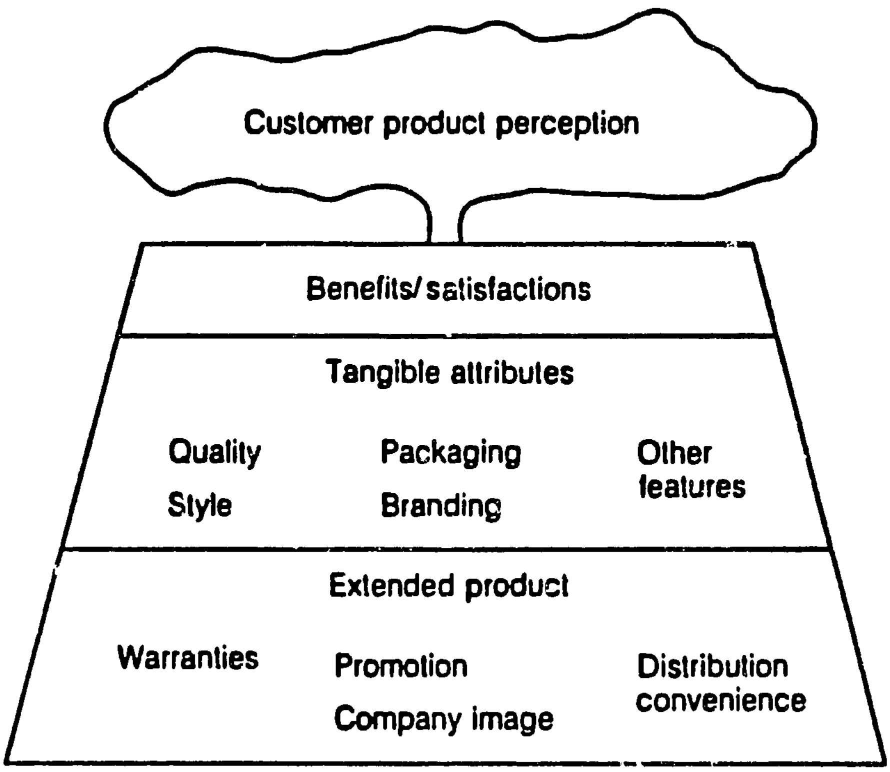
↓ ↑

Marketing Plan

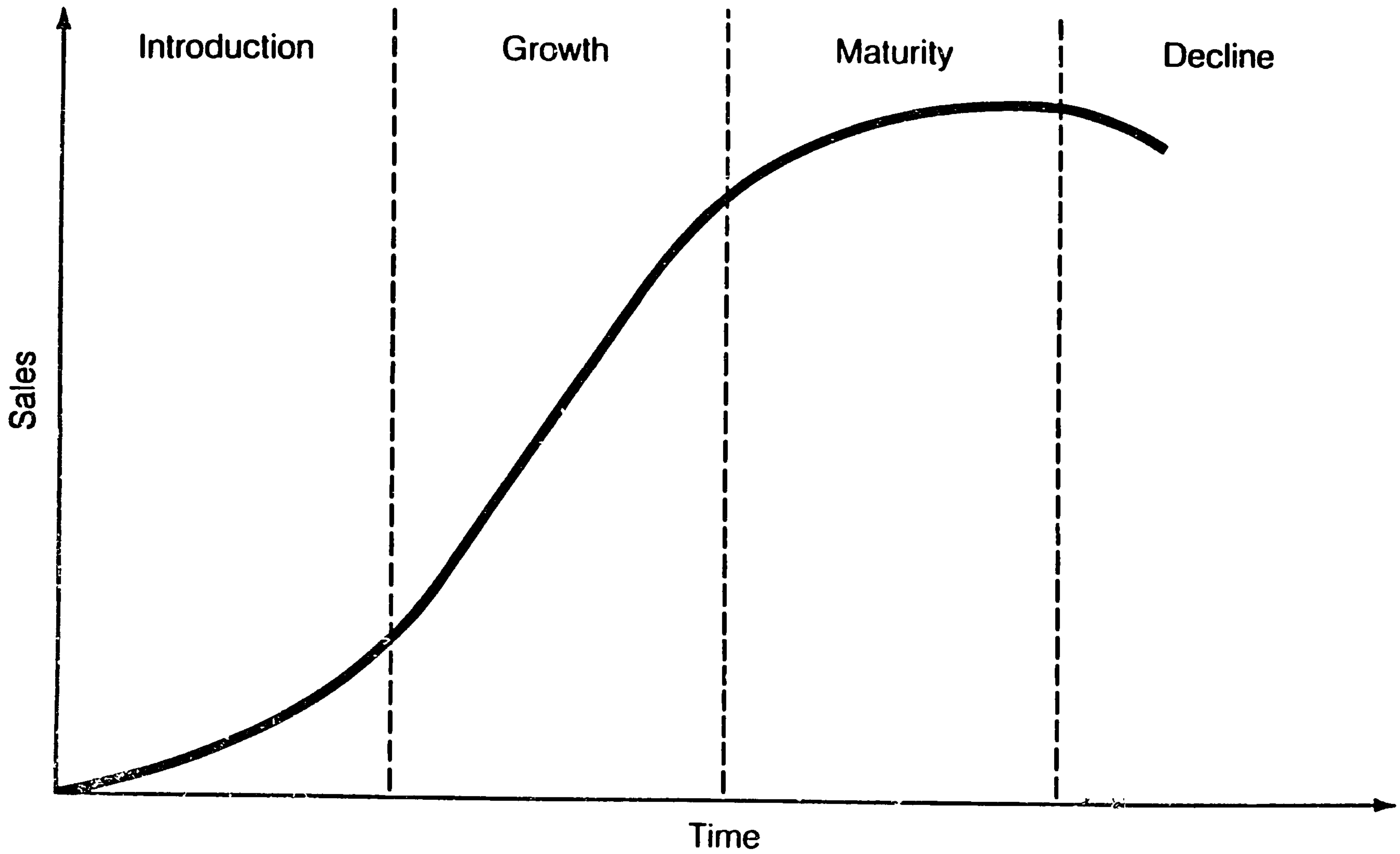
↓ ↑

Business Plan

CUSTOMER PERCEPTIONS



PRODUCT LIFE CYCLE



TP 3-3

FOR EACH OF YOUR PRODUCTS AND SERVICES:

Is it a winner for your business?

What is its future?

Should you continue to sell it?

Does it help to sell other products?

Should you give the product more support — marketing, financial, personnel?

EXPAND YOUR PRODUCT/SERVICE LINES?

Are there related products/services that your customers want?

Would they add to your profitability?

Would there be any negative effects? Change the special nature or image of your business?

Do you and others in your firm ask these questions every few months?

PRODUCT/SERVICE IMPROVEMENTS?

- **Competitive Advantage**
- **Greater Customer Satisfaction**
- **Good marketing claim –**

  New! Improved!
- **But if it isn't broke, don't fix it?**

  Use good judgment

SUBSTITUTE WAYS TO SATISFY YOUR CUSTOMERS?

Look to the horizon — Are new and better ways being developed to meet your customers needs?

The horse and carriage was replaced by the automobile. What will be the new substitute for for your products/services?

NEW STRATEGIES FOR YOUR PRODUCTS/SERVICES?

New uses or applications?

New markets?

New packaging, branding, promotion?

Different quality/price levels?

INTERNAL CONSISTENCY OF YOUR PRODUCT LINE

- **Products serve the same target market?**
- **Convey the same image for your business (e.g., quality level, price level, etc.)**

FINANCIAL PERFORMANCE

What costs are associated with each?

What is the contribution to profit and overhead of each product?

Do you need better cost accounting information?

Should certain products be dropped?

Should other products receive more or less support?

Are some products important to retain despite poor financial performance?

YOUR UNIQUE SELLING PROPOSITION?

Differentiate as compared to competition and better fit part of the market.

What is special about your products/services? Unique?

NEW PRODUCT DEVELOPMENT PROCESS

Business strategy

1 New product strategy development

2 Idea generation

3 Screening and evaluation

4 Business analysis

5 Development

6 Testing

7 Commercialization

↓

Commercialized products

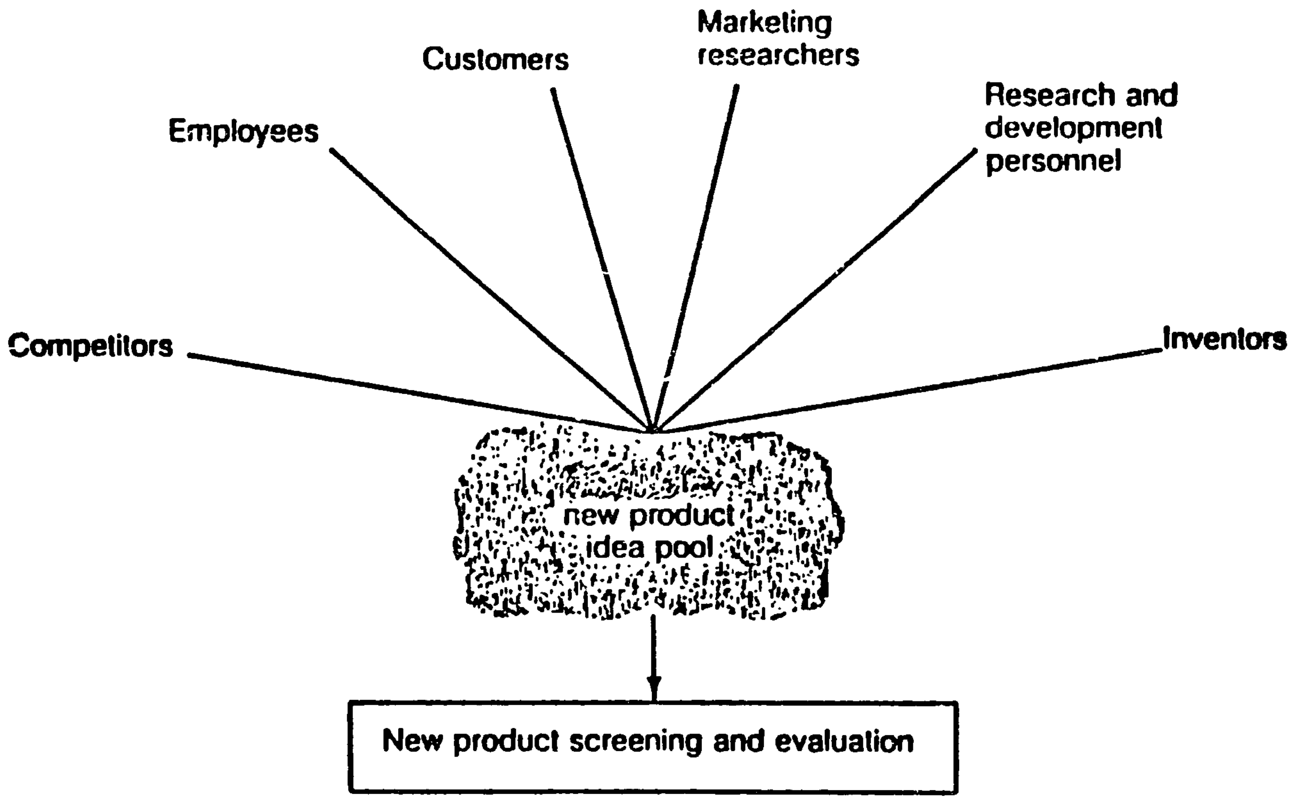
Source: Adapted from *New Product Management for the 1980s* (New York: Booz•Allen & Hamilton, 1982), p. 11.

PRODUCT STRATEGY DEVELOPMENT

What products would be:

- **Consistent with my business mission and strategy**
- **Matched with internal capabilities**
- **Related to previous product/market experience**
- **Consistent with industry and environmental changes**
- **Existing products and the product life cycle**

Sources for New Product Ideas



NEW PRODUCT SCREENING CRITERIA

Business goals and objectives criteria

Consistency with business mission

- **Satisfying similar customer needs**
- **Similar to existing products**

Consistency with business image and reputation

- **Type of product and quality**
- **Completeness of product offering for customers**
- **Superiority over competitors' products**

Consistency with desired financial performance

- **Sales level (market size, existing and potential competition)**
- **Payback period**
- **Profitability**

Market opportunity potential

- **Ability to market to existing versus new customers**
- **Market potential size and growth**
- **International market potential**
- **Seasonal fluctuations**
- **Competitive threats**

Business resource capabilities

Investment size required

Market development required

Product life-cycle length

Technical skills required

Marketing program requirements

- **Advertising (same media, etc.)**
- **Personal selling (use existing sales force?)**
- **Distribution channels (existing?/access?)**
- **Customer service (existing organization?)**
- **Probable price (image consistency, margins)**

Patent protection (competitor entry?)

Your Ideas: Excellent — Good — Fair — Poor ? ?

TESTING

Concept Testing

Product Use Tests

Test Marketing

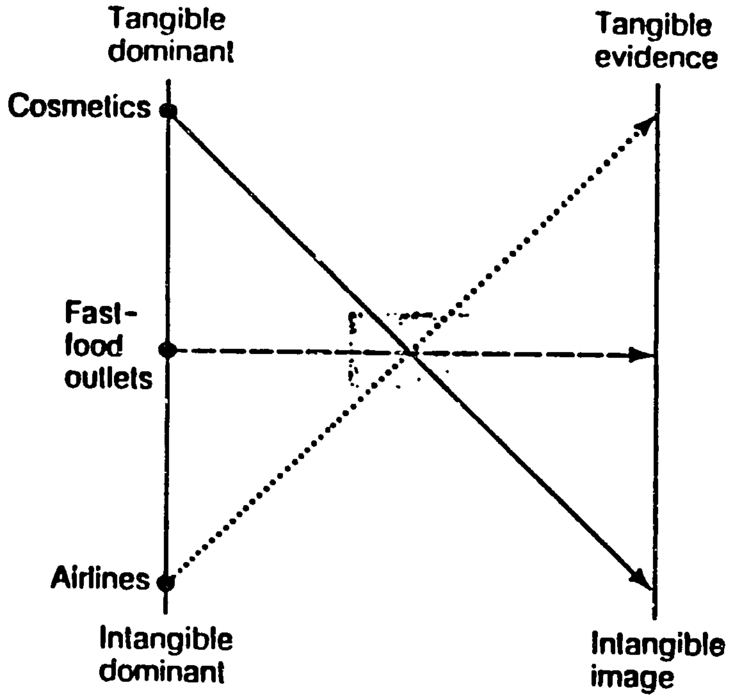
HOW ARE SERVICES DIFFERENT?

Intangible

Blend Production and Consumption

"Distribution Channels"

Relationship of Tangible and Intangible Elements: Goods versus Services



Source: G. Lynn Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April 1977), p. 79.

HOW DO YOU DO SERVICES MARKETING?

- "Internal Marketing" with your Employees
- Customizing Service
- "Product" Design
- Pricing

Figure 2.2
PRODUCT COMPARISON FORM

Fill this out for each product or service you offer. For the sake of simplicity, compare yours only to the leading competitive products or services.

Product/Service: ____________________

	Yours	The Competition's
Target markets:		
Benefits offered:		
1.		
2.		
3.		
Quality		
Price		
Improved versions		
Location		
Delivery		
Follow-up service		
Availability		
Convenience		
Reliability		
Service		
Guarantees		
Other (specify):		
1.		
2.		
3.		

The Market Planning Guide, David H. Bangs, Jr., 1990, Chapter 2.

WINNERS AND LOSERS

Products/services with major impact on O & P:

Contributors:	Amounts:
1. ____________________	$ __________
2. ____________________	__________
3. ____________________	__________
4. ____________________	__________
5. ____________________	__________

Detractors:	Amounts:
1. ____________________	$ __________
2. ____________________	__________
3. ____________________	__________
4. ____________________	__________
5. ____________________	__________

The Market Planning Guide, David H. Bangs, Jr., 1990, Chapter 2.

DIFFERENTIATION PROMISE AND OPPORTUNITIES

The differentiation strategy to providing benefit at a profitable margin must promise buyers that your product (by which we mean product or service unless one is specified) will:

_______ do more
_______ or look prettier
_______ or work faster
_______ or run longer
_______ or come in more flavors, colors, shapes, sizes, and so on
_______ or make the buyer feel younger, sexier, and so on
_______ or withstand greater pressure
_______ or be delivered on shorter notice
_______ or be sold on easier credit terms
_______ or be installed better
_______ or be more durable
_______ or be repaired with less hassle
_______ or ____________________
_______ or ____________________
_______ or ____________________

than the product they now buy.

Source: Lawrence Finley, *Entrepreneurial Strategies*, PLOS Kent, pp. 70–78.

Exercise 5.A

Examine carefully the preceding list and identify products (brands) or services now being profitably sold that promise the buyer each of the above advantages. Write your thoughts in the blanks to the left.

If the next thought that entered your mind was "and each of those products started by beating then-existing products to some buyer's dollar," then you are thinking like an entrepreneur – that is, you are thinking "new," "better than current competition," and "a profitable price is possible."

Is a high differentiation strategy a simple matter of deciding to do it then sticking on a high price tag? Hardly. Dr. Land spent years and thousands of dollars coming up with the camera that would reliably develop pictures automatically. Baskin-Robbins spent big dollars and lots of time to develop the competitive thirty-one flavors and then to develop the store layout, inventory control, and other procedures to market differentiated ice cream.

Wendy's Old Fashioned Hamburgers is one of the best known companies to build success on a product toward the high-quality end of the hamburger industry. Wendy's began in 1969, about fourteen years after McDonald's. Some excerpts from 1983 speeches by Wendy's president Ronald Fay, follow. He was speaking to the Cleveland Society of Security Analysts. (The purpose of such speeches is to convince stock brokers one's stock is a good investment, thus help the company raise equity capital.) Note the concepts of margin and differentiation:

> Despite the weak economic development last year, margins for our 800 co-operated stores rose to 17.8% in the first nine months of 1982 compared to 16.3% the year earlier.
>
> There's more profit improvement ahead as we get the full benefit from our programs to sharpen operations, strengthen marketing and step up new product development ...and amenities such as our newly designed building.
>
> The Wendy's concept, our commitment to value and service, and our positioning at the quality end of the quick-service industry, give us excellent growth opportunities.

Types of Differentiated New Business

New businesses that succeed by premium price or differentiation strategies include the following types (blanks are explained later):

- _______ New high technology producers of one-of-a-kind testing or measuring instruments;
- _______ New manufacturers, turning patent protected one-of-a-kind items into high-volume items;
- _______ Manufacturers, using expensive machines;
- _______ Manufacturers, using highly skilled artisans or engineers;
- _______ Wholesalers, carrying a very wide line (of paperware, drugs, auto parts, and so on);
- _______ Wholesalers offering extra services such as delivery or credit;
- _______ Service businesses offering scarce services of a high quality (towing big trucks, drilling deep wells, staying open 24 hours);
- _______ Professional associations of physicians, consultants, accountants, architects, for example;
- _______ Construction subcontractors offering scarce skills in electricity, plumbing, dry walling, and so on;
- _______ Construction companies building one-of-a-kind buildings;
- _______ Retailers of special hard-to-find items or brands;
- _______ Restaurants with menus offering a wide selection or connoisseur foods.

Think of businesses in your market area, new ones if possible, that fit into each of these categories. Remember, identify businesses that offer top-of-the-line products or "extra" services and charge more than most competitors because they offer something different and better.

Most businesses that are able to charge high prices are not the "new kid on the block." Only a newcomer that offers a radically new and better product can charge a price higher than the competitor's price; an example is New Balance running shoes, another would be a fancily named French restaurant.

Exercise 5.B

You are now ready to name a business of each type described, and write its name in the blank next to its description. This should be discussed with an acquaintance.

For important reasons established businesses will often be better able to differentiate their product from those of competitors than will new businesses. Remember a product (or service) includes not only the bare physical product, such as a dinner, but how well-presented the dinner is: how hot the meat and vegetables, how cold the iced tea, how informed and friendly the waiter, and so on. Months or years may be required to develop the Cadillac of the market.

Marketing authorities say any product or service can be differentiated (Levitt 1980). If a product is advertised effectively, a perception of superiority in some aspect may be created. If dinners are served with something extra, in an atmosphere people remember fondly, word gets around that that product is better.

Excellent sources of success stories of companies starting up and their marketing strategies are *Venture* and *Inc.* magazines (see References).

Exercise 5.C

1. If you buy used personal computers for an average cost of $300 each, variable costs for refurbishing, etc. are $100 for each machine, you sell them for an average of $600 each, and your fixed costs are $4000 a month, how many must you buy and sell to pay all your costs?

Answer: $600 – 400 = 200, into $4,000 = 20 PCs.

2. Now, notice how profit behaves when we change price. Suppose the price dropped (because your PCs were *not different* enough from others selling for $500) to $500. At 20 PCs of sales volume how much would you lose?

Answer: 20(500 – 400) = 4,000 = –$2,000

3. If you could offer a more convenient location, better cared-for machines, support after the sales, or a product differentiated in some other way, and could then charge $700 each, how much would you earn?

Answer: 20(700 – 400) = 6,000 – 4,000 = $2,000 profit. In sum, at a price of $500 and a volume of 20 units a month, losses are $2,000. If the price could be raised to $700 because of differentiation and you still could sell 20, then profits would be $2,000.

When a 20 percent change in price causes an infinite percent change in profits, we say you have price leverage. Does price leverage work all the time? No, only if certain costs actually can be controlled while any other factors change and only if product differences can induce buyers to pay more. Further, these greatly disparate percentages will narrow as your operation grows from zero profit – that is, as the profit base grows, percent changes in profit for a given change in price will be less phenomenal.

By now, you have probably concluded that a new business can be more than lots of fun and hard work. Through enough differentiation to bring a premium price, it can provide you an income. Let us use this understanding in the next exercise to think about a business being considered by Elaine Livingston.

James and Elaine Livingston have a daughter, Patricia, who is eight years of age, and a son Hammond, who is seven. They live in University park, an exclusive area of a northern Illinois city. Patricia works in a children's clothing store, about 5 miles west of their neighborhood. During the past ten years, she has advanced from primarily operating the cash register and straightening shelf merchandise to salesperson and buyer of upper-age (6–10) girls' clothing. Two other women also buys for boys and girls through age five. Mrs. Owen, the manager, approves all orders after going over them closely with the buyers. She frequently lowers quantities before ordering.

James Livingston is an engineer with a large automotive supplier in the city. They share household duties, and he admits, "There's more to it than I thought. It's actually very challenging to learn the qualities of this material or that, to organize my tasks well so that I still have time to do the things I want to do after doing my part for the family." Elaine admits that he has become very knowledgeable and efficient. He takes care of household finances and in fact recently acquired a personal computer to keep financial records. This is mostly for fun at this point he says, as no time saving is expected.

A few months earlier, Elaine mentioned wanting a children's clothing business of her own. She said she knew selling and buying and could learn the other tasks once she starts in her own store. She noticed that, as incomes generally began to increase, people were willing to spend more on their children's clothing. In fact, she believes that, during the ten years she has worked, there has been a steady (except for the recession of 1980–1981) increase in the number of customers wanting better clothes. She is certain their customers were buying "up" and her employer was not keeping up with this trend. During her first two years there, she mentioned this to Mrs. Owen, the manager of Ives Clothing. She had relayed to Mrs. Ives that almost daily one or more customers went away to look for "something nicer" at another store. The closest store was about two miles northwest in a new mall. That store's merchandise is priced 10 to 30 percent higher than at Ives. Owen is uninterested in Elaine's observations, remarking, "we have a very good business just the way we are."

Exercise 5.D

1. Will the strategy contemplated by Elaine fit industry conditions as far as you can discern?

2. Identify strengths and weaknesses Elaine has in starting a business. Which ones are most important?

3. Describe the following factors Elaine will need to aim for if she starts a new store selling "nicer" children's clothing.

   a. Locations to consider and those to avoid.

   b. Specific brands to buy or not buy.

c. Advertising and promotion themes to use and themes to avoid.

4. Look back at your list of ways products may be differentiated (Exercise 5.A) and your identified businesses succeeding because of each differentiation (5.B). Choose the two of these businesses you know most about and note any ideas about how you might get into each business. What preparation would be needed? Where might the business succeed? Who might help you?

Business One:

Business Two:

NEW PRODUCT SCREENING CRITERIA

Business goals and objectives criteria

Consistency with business mission
- Satisfying similar customer needs
- Similar to existing products

Consistency with business image and reputation
- Type of product and quality
- Completeness of product offering for customers
- Superiority over competitors' products

Consistency with desired financial performance
- Sales level (market size, existing and potential competition)
- Payback period
- Profitability

Market opportunity potential
- Ability to market to existing versus new customers
- Market potential size and growth
- International market potential
- Seasonal fluctuations
- Competitive threats

Business resource capabilities

Investment size required

Market development required

Product life-cycle length

Technical skills required

Marketing program requirements
- Advertising (same media, etc.)
- Personal selling (use existing sales force?)
- Distribution channels (existing?/access?)
- Customer service (existing organization?)
- Probable price (image consistency, margins)

Patent protection (competitor entry?)

Your Ideas: Excellent — Good — Fair — Poor ? ?

TWENTY-ONE WARNING SIGNALS

From the consumer:

1. The price is too high.
2. I don't know how to use it — I must be educated.
3. Certainly it's a better product, but it's not quite worth the extra money.

From the trade:

4. The product will have a low rate of turnover.
5. The product will disturb our business on established items, maybe destroy more business than it creates.
6. We are afraid of the servicing problems this new item may create.
7. The product is an unwanted addition to a field already crowded.
8. There is no retail shelf space or floor space available for this product.
9. The nature of the product is such that it must be sold in an odd size or shape ill suited to shipping or display facilities.
10. This product cannot be sold without individual demonstration.

From company management:

11. It is difficult to procure or procure consistently the right raw materials for this product.
12. It is difficult to project costs because the raw material market is subject to considerable price fluctuation.
13. Plant production would be seriously hampered if changes were made to handle the manufacture of this new product.
14. The product is good but impossible to package.
15. The patent situation is confused and we would be vulnerable.
16. The probable channel of distribution of this new product is not clearly defined.
17. To make salesmen's time available for this product would jeopardize our established line.
18. The new product does not hold promise of sufficient volume or frequency of purchase to maintain distribution.
19. The trademark situation is unsatisfactory.
20. Certain government regulations would make marketing of this product difficult.
21. With this product we would be competing in a field dominated by strong, aggressive companies with superior marketing resources.

SERVICES MARKETING IS DIFFERENT

by Leonard L. Berry

In 1978 $600 billion was spent by Americans for services—for airline tickets, electricity, rent, medical care, college tuition, sports entertainment, automobile repair, and so forth. Today, in excess of 45% of the average family's budget is spent on services.[1]

Despite the importance of the services sector in the American economy, services marketing has only recently attracted the attention of academic marketers. As a result, far more research has been done on how to market goods than on how to market services. This would not really matter if the problems encountered in services marketing were identical to those encountered in goods and marketing, but such is not the case. This article examines some of the special characteristics of services and suggests some of the marketing strategy implications that arise from them.

CHARACTERISTICS OF SERVICES

Although service industries are themselves quite heterogeneous (ranging from beauty salons to electric utilities), there are some characteristics of services about which it is useful to generalize. Three of the most important of these characteristics are discussed here.

More Intangible than Tangible. A good is an object, a device, a thing; a service is a deed, a performance, an effort. When a good is purchased, something tangible is acquired; something that can be seen, touched, perhaps smelled or worn or placed on a mantel. When a service is purchased, there is generally nothing tangible to show for it. Money has been spent, but there are no additional clothes to hang in the closet and nothing to place on the mantel.

Services are consumed but not possessed. Although the performance of most services is supported by tangibles—for instance, the automobile in the case of a taxi service—the essence of what is being bought is a performance rendered by one party for another.

Most market offerings are a combination of tangible and intangible elements.[2] It is whether the essence of what is being bought is tangible or intangible that determines its classification as a good or a service. In a restaurant the acquisition of supplies, the preparation and serving of meals, and the after-meal cleanup (or some combination thereof) is performed for the consumer by another party. Hence, we think of the restaurant industry as a service industry. This is so even though there are tangibles

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involved—for example, the building, interior decor, kitchen equipment, and food.

The concept of intangibility has two meanings, both of which present challenges for marketing—

- That which cannot be touched, impalpable.
- That which cannot be easily defined, formulated, or grasped mentally.[3]

Addressing the marketing problems that intangibility presents is generally a matter of far more concern to the services marketer than to the goods marketer.

Simultaneous Production and Consumption. Services are generally produced and consumed in the same time frame. The college professor produces an educational service while the student consumes it. The telephone company produces telephone service while the telephone user consumes it. The babysitter produces a babysitting service while the children and parents consume it.

Generally, goods are produced, then sold, then consumed. Services on the other hand are usually sold first, then produced and consumed simultaneously.

Simultaneous production and consumption means that the service provider is often physically present when consumption takes place. Whereas a washing machine might be manufactured in Michigan and consumed in Virginia, the dentist is present when examining a patient; the singer is present when performing a concert; the airline stewardess is present when serving an in-flight meal.

What is important to recognize about the presence of the service provider is that the "how" of service distribution becomes important. In the marketing discipline, great stress is placed on distributing goods where and when customer-prospects desire them to be distributed—that is, to the "right place" and at the "right time." With services, it often is important to distribute them in the "right way" as well. How automobile mechanics, physicians, lawyers, teachers, and bank tellers conduct themselves in the presence of the customer can influence future patronage decisions. Washing machines can't be rude or careless or thoughtless, but people providing services can be and sometimes are. And when they are, the result may be a search for a new service supplier.

Less Standardized and Uniform. Service industries tend to differ on the extent to which they are "people-based" or "equipment-based."[4] That is, there is a larger human component involved in performing some services (for example, telephone communications). One of the implications of this distinction is that the "outcomes" of people-based service operations tend to be less standardized and uniform than the outcomes of equipment-based service- or goods-producing operations. Stated differently, the extensive involvement of people in the production of a service introduces a degree of variability in the outcome that is not present when machines dominate. This is an important consideration, given the vast number of service industries that are labor-intensive.

The ever-present potential for variability in a labor-intensive service situation is well known in the marketplace. Whereas consumers expect their favorite breakfast cereal to always taste the same, and to almost always hear a dial tone when picking up a telephone receiver, expectations are far less certain on the occasion of getting a haircut. This is why consumers look at their hair in a mirror before the hair-cutting service is concluded. The outcome is uncertain and more service production may be needed, even when the barber or beautician has had long experience with the consumer.

The growing use of automatic-teller machines (ATMs) by the financial-services industry makes the point. The net effect of the ATM is to transform the delivery of certain traditional banking services from a human delivery mode to a machine delivery mode. This transformation does not mean that all consumers will like or use these machines. It does mean, however, that those who do use ATMs will find far less variability in the services rendered than if human tellers were used. A banker can paint a smile on an ATM and call it Tillie; except when not working properly, the machine will perform uniformly for all customers regardless of how these customers are dressed, the time of day, or the length of the queue waiting for service. Such is not the case with the human teller who may have a bad day, get tired, or become angry with a supervisor, co-worker, or customer. Moreover, human tellers differ among themselves in their customer-relation and technical skills, their personalities, and their attitudes toward their work. In short, bankers cannot paint a smile on a human being.

MARKETING SERVICES

The special characteristics of services present a number of implications concerning their marketing. Although many marketing concepts and tools are applicable to both goods and services, the relative importance of these concepts and tools, and how they are used, are often different. This section suggests a number of strategic marketing opportunities of particular importance to the service industries.

Internal Marketing

In what Richard Chase calls "high-contact" service businesses, the quality of the service is inseparable from the quality of the service provider.[5] High-contact businesses are ones in which there is considerable contact between the service provider and the customer, e.g., health care, financial services, and restaurants. Human performance materially shapes the service outcome and hence becomes part of the "product."

Just as goods marketers need to be concerned with product quality, so do services marketers need to be concerned with service quality, which means—in labor-intensive situations—special attention to employee quality and performance. It follows that in high-contact service industries, marketers need to be concerned with internal, not just external marketing.

Internal marketing means applying the philosophy and practices of marketing to the people that serve the external customer so that (1) the best possible people can be employed and retained and (2) they will do the best possible work. (Technically the phrase "internal marketing" can be applied to any form of marketing inside an organization, for example, marketing an idea to a superior. In this article, the phrase concerns marketing to employees.) More specifically, internal marketing is viewing employees as internal customers, viewing jobs as internal products, and (just as with external marketing) endeavoring to design these products to better meet the needs of these customers.[6]

Although most executives are not accustomed to thinking of marketing in this way, the fact is that people do buy jobs from employers, and employers can and do use marketing to sell these jobs on an initial and on-going basis. To the extent that high-contact service firms use the concepts and tools of marketing to offer better, more satisfying jobs, they upgrade their capabilities for being more effective service marketers.

The relevance of marketing thinking to personnel management is very real. The banks and insurance companies (among others) adopting flexible working hours are redesigning jobs to better accommodate individual differences, which is market segmentation.[7] The Marriott Corporation is noted for its commitment to employee attitude monitoring, but what it really is doing is marketing research.[8] Indiana National Bank's recent "Person-to-Person" advertising campaign featuring its own personnel was designed to motivate employees as well as external customers and prospects. Aggressive investment in behalf of employee quality and performance is a hallmark of many of American's most successful service companies, including Delta Airlines,[9] Bank of America,[10] and Walt Disney.[11]

Importantly, the crucial matter is not that the phrase "internal marketing" come into widespread use, but that the implication of the phrase be understood; i.e., by satisfying the needs of its internal customers, an organization upgrades its capability for satisfying the needs of its external customers. This is true for most organizations and is certainly true for high-contact service organizations. As one recent article pointed out, "the successful service company must first sell the job to employees before it can sell its services to customers.[12]

Customizing Service

The simultaneous production and consumption characteristic of services frequently provides opportunities to "customize" service. Some service organizations take full advantage of this opportunity within the boundary of productivity requirements, but many do not.

Since a fundamental marketing objective is to effect a good fit between what the customer-prospect wants to buy and what the organization has to sell, the potential for tailoring service to meet the precise desires of individual customers should not be taken lightly. The possibilities for service customization are far greater than first meet the eye. Free Spirit Travel Agency, headquartered in Boulder, Colorado, completes information forms for first-time customers indicating travel patterns and preferences. The marketing potential of such a customer-information system is significant—for example, automatically sending notices on travel specials to Japan to those customers expressing an interest in that country. Automotive Systems, a Decatur, Georgia, automotive repaid and maintenance firm, provides explicit notes on its customer bills indicting what still needs to be done with the car and the degree of priority. A growing number of financial institutions have implemented training and incentive programs to encourage tellers to refer to customers by name during transactions. Wendy's designed its hamburger production line to accommodate individual preferences in the makeup of a hamburger and, in the process, to capitalize on the limited flexibility of the McDonald's system.

One of the key strategic issues for many service marketers is to determine the circumstances under which customization should apply and the circumstances under which standardization should apply. This issue is at the heart of an interesting trend in the banking industry toward the use of "personal bankers." Banks fully implementing personal banking assign to each retail customer a specific banker who opens new accounts and compiles information for future reference, makes loans and provides financial consultation, cuts red tape when problems arise, and in general is available when service of a non-routine nature is needed. In short, personal bankers function on a client basis in much the same way as public accountants or attorneys function.[13]

Banks that have adopted a personal-banker mode of organization have, in effect, established a system in which customers can on appropriate occasions get individualized service from a trained banker with whom they have dealt before. For routine transactions, the customer continues to use the teller station or ATMs that provide more standardized services. Although neither inexpensive nor easy to implement, personal banking is growing because it facilitates the custom packaging and hence the cross-selling of financial services; because it helps banks attract more affluent customers who value personalized and competent service; and because it is a way for larger institutions—a Wachovia, Harris Bank, or Irving Trust, for example—to *credibly* position themselves in the market as personalized institutions.[14]

Managing Evidence

Because goods are tangible and can be seen and touched, they are generally easier to evaluate than services. The intangibility of service prompts customer-prospects to be attentive to tangibles associated with the service for clues of the service's nature and quality.

A prime responsibility for the service marketer is to manage these tangibles so that the proper signals are conveyed about the service. As one author convincingly writes on this subject:

> Product marketing tends to give first emphasis to creating *abstract* associations. *Service* marketers, on the other hand, should be focused on enhancing and differentiating "realities" through manipulation of *tangible* clues. The management of evidence comes first for service marketers.[15]

There are a number of ways service marketers can manage evidence, as the following sections indicate.

Physical Services Environment. The physical environment in which services are purchased generally provides an important opportunity to tell the "right" story about a given service. Fortunately, service marketers are frequently in a position to shape the environment to their specifications because they distribute the service they produce.

There are many examples of service marketers capitalizing on this opportunity to manage evidence. A Richmond, Virginia, pediatrician decorated his office with bright, multicolored carpeting, pictures of Disney characters on the walls, a huge balloon Superman hanging from the ceiling in one of the examining rooms, a play area in a corner of the waiting room, and an after-visit toybox from which each child could select an inexpensive toy to take home. Braniff Airlines not only painted the exteriors of its planes a variety of bright colors but also furnished the interior with leather seats and wall murals. Hyatt with its daring hotel designs, Walt Disney with its spectacular theme parks, and TransAmerica with its pyramid-like headquarters building are three service companies that have succeeded notably in making architecture a centerpiece of their marketing strategy.

Appearance of Service Providers. The appearance of service providers is another tangible that can be managed. Fitness consultants at Cosmopolitan Health Spas often wear white "doctor" smocks and are rarely flabby. The Richmond pediatrician referred to earlier wore bright shirts and oversized bow ties rather than the traditional smock, which would have signaled "doctor" to the child. Braniff stewardesses wear designer outfits to complement the striking decor of the planes. Disney goes to great lengths to assure that theme park employees appear "freshly scrubbed," neatly groomed, and unfailingly cheerful.

Service Pricing. The tendency for customer-prospects to use the price of a product as an indicator of its quality is well known. Some researchers suggest that this tendency is even more pronounced for services. They argue that the relative absence of material data with which to appraise services makes price a potentially important index of quality.[16]

It follows that setting the right price is especially critical in circumstances where there is reason to expect differences in service quality from one supplier to another, and where the personal risk of buying a lower quality service is high. Lawyers, accountants, investment counselors, consultants, convention speakers, and even hair stylists can contradict signals they wish to communicate about quality by setting their prices too low. In short, a price can be a confidence builder; price is a clue.

Tying Services Marketing to Goods Marketing. Sometimes increased credibility concerning a service's quality can be gained by distributing it through a goods-marketing organization that already has credibility. The automobile-service and insurance business lines at Sears have undoubtedly benefited greatly from the association with the Sears' name and reputation.

A recent paper illustrates the potential benefits of tying services marketing into a goods-marketing organization with a hypothetical scenario involving an established department store adding a health spa.

> The store's strengths include a loyal market of middle age, upper middle class, upper income customers...a reputation for quality; and an image of progressive merchandising...The health spa industry, in general, has a poor image which includes high pressure selling tactics, poor quality personnel, and inattention once the sale has been made. The new offering's intangibility allows the store to use its positive image to reduce the uncertainty and perceived risks for potential users of the spa. In addition to revenues generated from the spa services, there are many possibilities for cross-selling other store lines such as sporting goods, sportswear, and health food products.[17]

Interestingly, the process can work the other way with well-known and well-regarded service companies moving into the goods marketing. The key of course is where the credibility and access to the customer-prospect lies. In the preceding scenario, it lies with the department store. In the case of service enterprises like American Express and TWA, it lies with them.

Making the Service Tangible

Earlier it was indicated that intangibility has two meanings: that which cannot be touched; that which cannot be easily grasped mentally. Marketing advantage usually is to be gained if the service can be made more "touchable" and more easily grasped mentally. This involves attempting to make the service more tangible.[18]

Sometimes it is possible to make a service more palpable by creating a tangible representation of it. This is what has occurred with the development of the bank credit card. By presenting the service with a specially encoded plastic card that, when used, triggers the service, Visa and others have been able to overcome many of the handicaps normally associated with marketing an intangible. The existence of the plastic card has allowed Visa to physically differentiate the service through color and graphics and to build and even extend a potent brand name, e.g., Visa travelers checks. Moreover, institutions distributing bank charge cards can extend their trading areas because once the card is obtained by consumers (often by mail), credit purchases can be made without going to the bank.

Just as service marketers should consider whether there are opportunities to develop a tangible representation of the service, so should they look for opportunities to make the service more easily grasped mentally. For example, the insurance industry has made it easier for consumers to perceive what is being sold by associating the intangible of insurance with relevant tangible objects. Consider the following:

- "You are in good *hands* with Allstate."
- "I've got a piece of the *rock*."
- "Under the Traveler's *umbrella*."
- "The Nationwide *blanket* of protection."

Hands, rocks, umbrellas, and blankets are used to more effectively communicate what insurance can provide people; they are devices used to make the service more easily grasped mentally.

Synchronizing Supply and Demand

Because services are performances, they cannot be inventoried. This is a significant fact of life in a service business because demand peaks cannot be accommodated simply by taking goods off a shelf. If an airline has 40 more flight-reservation requests than capacity permits, some business will likely be lost. Conversely, if an airliner takes off with 40 empty seats, the revenue that those 40 seats could have produced, had they been filled, is lost forever. One of the crucial challenges in many service industries is to find ways to better synchronize supply and demand as an alternative to recurring conditions of severe overdemand and underdemand. This is easier said than done. Demand peaks can occur during certain times of the day (airlines, restaurants), during certain days of the week (movies, hair styling), and during certain months of the year (income tax services, beach resorts).[19]

The service marketer interested in better synchronizing supply and demand may attempt to reshape demand and/or supply patterns for the service.

Reshaping Demand. All elements of the marketing mix are potentially available to help bring demand more in line with supply constraints. Delta Airlines, for example, has used pricing incentives to encourage travelers to fly during the early morning hours ("Early Bird" flights) and late evening ("Owly Bird" flights). Differential pricing to encourage demand during nonpeak periods is also commonly used by rental-car companies, movie theaters, and bars, among others. Through intensive promotion, the U.S. Postal Service has persuaded many customers that it is beneficial to them and their addressees to mail Christmas cards and packages early.[21] By adding a breakfast product line, McDonald's and other fast-food companies have been able to make productive use of previously underutilized facilities. Many banks have been able to lessen lobby traffic during peak hours by the use of automatic teller machines.

Importantly, demand-altering marketing actions can only have an impact when customer-prospects have control over their demand patterns. One recent article discusses the failure of the Boston bus system to attract significant numbers of new riders between 10:00 A.M. and 2:00 P.M. by reducing the normal \$.25 fare to \$.10 (promoted as "Dime Time"). A key problem was that most rush-hour riders were commuting to and from work and had little control over work schedules. More recent efforts by the bus system have centered on helping area employers understand the benefits of staggered and flexible working hours and how to implement them.[22]

Reshaping Supply. Another option available to the service marketer is to attempt to alter supply capacities to better match demand patterns. The possibilities are many and include the following:

- Using part-time employees and performing only essential tasks during peak demand periods.
- Training employees to perform multiple jobs so they can switch from one to another as demand dictates.
- Using paraprofessionals so that professionals can concentrate on duties requiring their expertise, e.g., parabankers who do legwork, solve routine problems, and handle clerical duties.
- Substituting equipment for human labor to make the service system more productive, e.g., automated car washes and computer-prepared income tax returns.

Obviously there are limits to how much supply capacity can be modified to fit demand requirements. The use of part-time personnel may be a variable cost, but the space they use when they come to work is a fixed cost. Nevertheless, the bottom-line potential from finding new ways to mesh supply capacity with demand is significant, and we can expect considerable innovation in this area during the 1980s. The same should be true for demand management as well. Indeed, America's best-managed service firms can be expected to vigorously work both sides of the street by seeking ways to reshape demand *and* supply patterns.

SUMMARY

Services differ from goods in some very important ways, and these differences present special challenges to the services marketer. The importance of the services sector in the American economy suggests the advisability of learning more about these differences and their marketing implications.

Services are more intangible than tangible, are produced and consumed simultaneously, and in many cases are less standardized, and uniform than goods. These characteristics heighten the importance of certain marketing approaches that are usually not considered priorities or even applicable in goods marketing. These important services-marketing approaches includ internal marketing, service customization, managing evidence, making the service tangible, and synchronizing supply and demand patterns.

In the academic discipline, services marketing has long been a stepchild to goods marketing, although progress has been made in recent years. It is time to do some serious catching up in terms of marketing thought.

Perhaps the 1980s will be the decade in which this occurs.

NOTES

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6. Thomas W. Thompson, Leonard L. Berry, and Phillip H. Davidson, *Banking Tomorrow—Managing* Markets through Planning (New York: Van Nostrand Reinhold, 1978), p. 243.
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12. W. Earl Sasser and Stephen P. Arbeit, "Selling Jobs in the Service Sector," *Business Horizons* (June 1976), p. 64.
13. Leonard L. Berry, "The Personal Banker," *Bankers Magazine* (January—February 1978), pp. 54—55.
14. See Thomas J. Stanley, Leonard L. Berry, and William D. Danko, "Personal Service Versus Convenience: Perceptions of the High-Income Customer," *Journal of Retail Banking* (June 1979), pp. 54—61.
15. Shostack, "Breaking Free from Product Marketing," p. 78.
16. Pierre Eiglier and Eric Langeard, "A New Approach to Service Marketing," in Eiglier, et al., *Marketing Consumer Services: New Insights* (Cambridge, Mass.: Marketing Science Institute, 1977), p. 41.
17. William R. George, "The Retailing of Services—A Challenging Future," *Journal of Retailing* (Fall 1977), pp. 88—89.
18. This section draws heavily from James H. Donnelly, Jr., "Service Delivery Strategies in the 1980s—Academic Perspective," in Leonard L. Berry and James H. Donnelly, Jr., eds., *Financial Institution Marketing: Strategies in the 1980s* (Washington, D.C.: Consumer Banker Association, 1980), pp. 143—150.
19. W. Earl Sasser, "Match Supply and Demand in Service Industries," *Harvard Business Review* (November—December 1976), p. 138.
20. *Ibid.*, pp. 137—40.
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22. *Ibid.*, p. 173.

PRICING STRATEGY

UNIT 4

Title: **PRICING STRATEGY**

Purpose: To make more effective pricing decisions.

Objectives: Upon completion of this unit, participants will-

- understand that setting prices is part of the overall marketing strategy for their businesses.
- see how costs, demand, competition and other factors determine which prices are best for the business.
- see how to set pricing objectives in their business.
- have seen how to, step by step, determine pricing policies and strategies over the product life cycle.
- consider various pricing discounts and adjustments that could be used in their businesses.

Materials:

Transparency 4-1:	Pricing Is
Transparency 4-2:	Pricing is Part of...
Transparency 4-3:	Pricing As Part of Marketing Strategy
Transparency 4-4:	Steps for Setting Prices
Transparency 4-5:	Pricing Objectives Are...
Transparency 4-6:	Pricing Objectives
Transparency 4-7:	How Much Pricing Flexibility Do You Have?
Transparency 4-8:	Evaluate Demand
Transparency 4-9:	Will Competitors Give You Pricing Flexibility?
Transparency 4-10:	Develop Price Strategies
Transparency 4-11:	Cost-Plus Pricing
Transparency 4-12:	Break-Even Pricing
Transparency 4-13:	Target Return Pricing
Transparency 4-14:	Competition Rate Pricing
Transparency 4-15:	Demand-Modified Break Even Pricing
Transparency 4-16:	Perceived Value Pricing
Transparency 4-17:	Which Pricing Method Should You Use?
Transparency 4-18:	Implementing Prices and Market Feedback
Transparency 4-19:	New Product/Service Pricing
Transparency 4-20:	Pricing: Key Points to Consider

Handout 4-1: Price Range Guidelines
Handout 4-2: Demand-Modified Break-Even Pricing Case
Handout 4-3: Pricing Objectives
Handout 4-4: Price, Location, and Sales Practices

Estimated Time: (Total - 3 hours)

Role of Pricing and Marketing Strategy	15 minutes
Pricing Process/Steps	15 minutes
Pricing Objectives	15 minutes
Determine Pricing Flexibility	45 minutes
Develop Price Strategies	30 minutes
Establish Prices	45 minutes
Conclusion	15 minutes

UNIT 4

PRICING STRATEGY

CONTENT	PROCESS
A. Review the Session Objectives	
Pricing is part of marketing strategy and the marketing mix (discussed in the first session) because it is one way to encourage (or discourage!) customers to buy. And marketing strategy is part of a marketing plan which, in turn, is part of a business plan.	Show TP 4-1: Pricing Is... and TP 4-2: Pricing is Part of...
Today we will show you how costs, demand and competition together will help you determine the best prices for your business. You will see how to set your own pricing objectives, policies and strategies over the product life cycle, and finally, you can evaluate whether pricing discounts and adjustments are appropriate for your business.	
B. What is the role of pricing in marketing strategy?	
Enhance the image of a product or business?	Show TP 4-3: Pricing as Part of Marketing Strategy
Sometimes, particularly if a product or intangible service is difficult to evaluate in terms of quality, a high price will help convey a high quality or prestigious image.	
Increase sales through pricing strategies?	

CONTENT	PROCESS
Or, pricing can be used with promotion to increase sales. But price may also be treated as an inactive element of the marketing program if competitive retaliation or price wars may result. Small businesses often decide to match competitors' prices but to try to gain a competitive advantage in other ways such as by product or service quality or faster service. A lower price can be easily matched by competitors and sometimes all the businesses then end up losing. But not always!	Examples: - Service Merchandise stores save costs and offer low prices. - <u>Ethan Allen</u> furniture stores offer service and justify high prices.
Consistent with the prices of other products and services?	
In developing your marketing strategy, your price level on one product or service should usually be "in line" with other products and services, so as to convey a consistent image to your customers.	
Consistent with advertising strategy?	
In advertising, price levels should also be consistent with the image projected. And heavy advertising can lead to higher volume, lower per unit costs and, therefore, the flexibility to lower prices.	
Channel members' interests being served — distributors, e.g.?	
Also, offering lower prices (and higher margins) to distributors than your competitors can motivate your distributors to perform better. So your prices should fit within your overall marketing strategy of products, advertising, distribution and other ways to create satisfied customers.	

CONTENT	PROCESS
C. Setting prices involves taking several steps, from specifying objectives at the beginning to establish prices and implementing them.	Show TP 4-4: Steps for Setting Prices
Although most business owners establish prices all the time, many do not, in a sense, start at the beginning. As shown here, there are four steps to think about prior to actually setting prices. Let us now consider each one of these steps.	
D. Pricing objectives are specific numerical and qualitative operating targets that reflect the role of pricing in the small firm's marketing strategy.	Show TP 4-5: Presenting definition of Pricing Objectives
In general, pricing objectives usually seek to achieve maximum profit over the long run. But there are more specific objectives that are good to be clear about in order to reach that profit. As shown here, you can use prices to increase the business sales volume, or to achieve a higher share of the market. Your objectives should be stated in numerical terms so that the actual results can later be compared to the objectives. Prices can also be changed specifically to increase cash flow, and as you know, the timing of cash flow is often very critical to survival. Also, for your business, you may wish to state pricing objectives relative to your competitors — discourage new competitors from entering, discourage price wars, or to become a price leader. You may also set pricing objectives to support your overall marketing strategy—build a business image, good distributor relationships, offer a product line with several price levels or to create interest in	Show TP 4-6: Pricing Objectives

CONTENT	PROCESS
advertising. What do you want your prices to do for your business? And why? And by when?	Distribute HO 4-1: Price Range Guidelines Please complete this handout now for your business. In ten minutes I will ask some of you to share your objectives. You may want to revise what you write or add other objectives later, but this is a beginning!
E. Determine Extent of Pricing Flexibility After you have established your objectives, then it is wise to carefully determine how much flexibility you really have to change your prices. This is the second step in the pricing process.	Show TP 4-4 again and then show TP 4-7: How Much Pricing Flexibility Do You Have?
Determine your costs It is sometimes said as a joke by business owners that they price under costs and offset the potential loss by selling a higher volume! Yet some businesses do price under costs because they have not studied their costs in detail, are overwhelmed by changing inflation rates or do not include overhead or other costs in their calculations. In new businesses, the cost **per unit** is often very high at the beginning, but as volume increases the cost per unit declines. This is very important information. Costs establish the "floor" of a possible price range. As was discussed in your reading, break even analysis is helpful to know what sales volume is required to pay for the fixed and variable costs rise and fall with sales. The break-even formula is: $$\text{Break Even} = \frac{\text{Fixed Costs}}{\text{Sales as 100\% minus the percentage of variable costs for each sales dollar.}}$$	

CONTENT	PROCESS
So if for each dollar of sales you pay 50 cents (or 50%) in variable costs, the remaining 50 cents (50%) can be used to pay fixed costs. So if fixed costs are $10,000 divided by 50% (100% minus 50%), sales must be $20,000 to cover the costs or break-even. This calculation helps you to estimate the sales required to pay your costs (without profit), and if the sales level required seems too high, then you can consider the possibility of charging a higher price. This increases the unit percentage going to pay fixed costs and lowers the break-even point.	
Evaluate Demand	
Evaluating customer demands is determining how sensitive your customers are to price changes. What will the market bear? What is the highest price you can charge without losing profits?	Show TP 4-8: Evaluate Demand
The answer will be different for different products and different customer groups. If you reduce your price from $20 to $15, a 25 percent cut, and demand increases from 100,000 to 200,000 units (a 100 percent jump), what happens to your revenue? At 100,000 units, the price reduction, if sales volume did not change, would cost you $500,000. But because unit sales volume increased by 100,000 units, an additional revenue of $1,500,000 was generated. So total revenue increased by $1,000,000, from $2,000,000 to $3,000,000.	
It can require courage to increase prices, but many times, if your business products are selling well, a price	

CONTENT	PROCESS
increase will increase your revenue even if your unit sales decrease. Again, the "balance" between increased revenue and reduced unit sales must be evaluated.	
In your reading, questions are listed to help you evaluate demand, such as "How do your customers perceive the value and quality of your products as compared to the price?" "Do your customers **expect** a certain price range? and "Do your customers compare your prices to competitors or are they loyal to you?" Some research and even experimentation with your prices may indicate that you can be much more successful by a price increase or decrease, at least for certain products or services. How much flexibility do you have?	
Evaluate your competition	Show TP 4-9: Will Competitors give You Pricing Flexibility?
The third "leg" holding-up the pricing "table" other than costs and customer sensitivity, is competition. Will your competitors allow you flexibility? If your customers are price sensitive and competitors are aggressive in their pricing, this can narrow your flexibility greatly. What are your competitors' pricing strategies? Are your gross margins similar to your competitors, or do they have greater flexibility to lower prices due to lower costs? How do competitors respond to your prices? And how long could you engage in direct price competition — do competitors (e.g., large foreign firms) have greater resources to win a price war? And how do customers perceive your businesses products and services compared to your competitors?	

CONTENT	PROCESS
Legal and Ethical Constraints	Show TP 4-7 again
Business owners must also be aware of any legal restrictions on pricing in Poland as well as consider ethical and moral issues. Markets that are still evolving in Poland may allow for excessive prices and profits for a short time. Yet this temptation must be balanced against ones moral beliefs as well as the long-term perception of you and your business by customers of the future.	
F. Develop Price Strategies	
The third step in the pricing process is to create a pricing strategy. Price strategies are the guidelines and policies used to effectively make pricing decisions so as to match target market conditions.	Show TP 4-4 again
Do you want to offer various discounts? You may want to charge different prices for goods sold at different places, at different times, or for slightly different products or services.	Show TP 4-10: Develop Price Strategies
A general price level for the firm's products should be set before setting specific prices. Use a high price or low price strategy.	
Consider the image that you want to build for your business.	
If you have many products, or different quality products, you may want to set several price levels within a product line to better match with what different groups of customers want.	

CONTENT	PROCESS
You may want to encourage stable and similar prices to customers if you sell through distributors.	
Where are you in the product life cycle? Conditions in each stage of the product life cycle may partly determine your prices. New products without direct competitors may be priced high but as the product "ages" and competition increases, prices decline.	
You may also want to consider using psychological pricing strategies. They are based on customer price perceptions so as to have special appeal in certain target markets. High prices may add prestige, and if your products or services are difficult to objectively evaluate, high prices may add to a perception of high quality.	
G. Establishing Prices	
There are several difference specific approaches that you can consider in actually setting your prices. This is the last step in the pricing process.	
1. Cost Plus and Markup Pricing	
Similar to the idea of full cost pricing and gross margin pricing (in your reading) are cost-plus, markon, and target return pricing. Cost-plus pricing simply involves adding a percentage of the costs to set the price. So if the cost to acquire or produce your product is \$100 and the cost-plus percentage is 20 percent, the price is _?_. (\$120) **Markup** (or markon) pricing calculations are a percentage of the selling	Show TP 4-11: Cost-Plus Pricing

CONTENT	PROCESS
price instead of the cost. As shown here (TP 4-11), the selling price is calculated by dividing the unit cost by 1 (one) minus the markup percentage. The total unit cost for producing a stereo speaker is $78.20, divide by $.55 results in a price of $142.18. Or, for a retailer, cigarettes might cost the retailer $.68, but then with a 20% markup we divide the cost by $.80 and have a selling price of $.85.	
2. Breakeven and Target Return Pricing	
With break-even pricing, you can use the break-even formula and set a price to achieve a particular sales volume so as to break even — or cover all fixed and variable costs. As shown here (TP 4-12,) it is estimated that a selling price of $4.00 will pay all the costs at a volume of 50,000 units. This is, of course, the price "floor" because the objective is to obtain profits.	Show TP 4-12: Break-Even Pricing and TP 4-13: Target Return Pricing
Target Return Pricing is a similar method, but the objective is to pay fixed and variable costs and **also** provide for a good profit. As shown in TP 4-13, a 20 percent target return adds $52,000 to the existing fixed and variable costs. So with a production output of 80,000 units, a price of $3.90 will result in achieving our target return goal.	
3. Competition-Rate Pricing	
The pricing methods discussed so far are cost-oriented methods. A competition-oriented pricing method is competition-rate pricing. This involves setting your prices equal to or a certain percentage above or below your competitors'	Show TP 4-14: Competition-Rate Pricing

CONTENT	PROCESS
prices. To do this usually means that your competitors are, in fact, good at setting their prices in consideration of costs, demand and competition; that your competitors have similar costs to yours; that competitors may retaliate by cutting prices if you try to aggressively compete using prices; and/or that your customers watch competitors prices and will switch purchases to them if the gap becomes significant.	
As noted in your reading, some business owners use **flexible** markups. Although based on costs, the percentages are adjusted in consideration of competitors' prices and customers' sensitivity.	
Demand-modified Break Even Pricing	
In the case in TP 4-15, the total revenue is the price times the estimated number of units that will be sold. The total costs are $200,000 fixed costs plus $2.50 multiplied by the number of units sold. The break-even point is the fixed cost ($200,000) divided by the price ($15.00) minus the variable cost ($2.50). The most difficult part of using this approach, however, is estimating the sales volume.	Show TP 4-15: Demand-Modified Break-Even Pricing Case Distribute HO 4-2 (same)
Perceived Value Pricing	
Beauty is in the eye of the beholder! So another demand oriented pricing method is to determine how the customer perceives the value of the product or service in view of the alternatives available. This can apply to an industrial product where the product may create cost savings or it may be used as a psychological pricing strategy where	Show TP 4-16: Perceived Value Pricing

CONTENT	PROCESS
customers perceive the value of a prestigious brand to be worth much more to them.	
Combine Your Methods	
One of these pricing methods may be best for you and your business, but above all, trust your judgment after carefully considering customer sensitivity, your costs, your competitors and your moral standards.	Show TP 4-17: Which Pricing Method Should You Use? Use HO 4-3: Pricing Objectives. Ask participants to complete the form and then ask 2—3 people to share their thoughts.
H. Implementing Prices and Seeking Market Feedback	
Implementing new prices requires a cooperative effort with sales people and distributors to be sure they accept the strategy and will communicate it appropriately to customers. With changes actually being made, obtaining feedback from customers and competitors is critical to determine if, in fact, the strategy is working as planned or if adjustments need to be made.	Show TP 4-18: Implementing Prices and Market Feedback
I. How is New Product Pricing Different?	
If you are offering new products or services to customers which have little or no competition, you have greater pricing flexibility than usual.	Show TP 4-19: New Product/Service Pricing
Pricing flexibility is often greater.	
You can use a skimming pricing strategy.	

CONTENT	PROCESS
Skimming pricing strategy, like taking the cream off a bottle of milk, involves setting a high initial price to first profit from price insensitive customers, and then gradually lower prices as competition enters to the levels that more price sensitive customers are willing to pay. You can use a penetration pricing strategy. This strategy involves setting a low initial price to capture a high proportion of the market, discourage competitors from entering and, if applicable, benefit from higher volume production economics. If future competition is expected to capture much of the market in any event, then this is probably **not** a good strategy. But with new products and services being offered all the time in Poland, your decision as to whether to use this greater pricing flexibility, even if short-term is very important.	
J. **Summarize key points that were relevant to the business owners in attendance.** (Briefly review important points for the business owners and try to get them to commit to decide whether to use any new pricing strategies in their business.	Show TP 4-4 again. Show TP 4-20: Pricing Key Points to Consider Distribute to participants HO 4-4 for later reading

PRICING IS–

The process of setting objectives, determining the available flexibility, developing pricing strategies, and then setting and implementing prices.

PRICING IS PART OF—

↓

MARKETING STRATEGY

↓

THE MARKETING PLAN

↓

THE BUSINESS PLAN

PRICING AS PART OF MARKETING STRATEGY

- Enhance your business/product image?

- Increase sales through pricing strategy?
  Can you compete on price? Or only "match the competition?"

- Are your prices consistent for your various products and services?

- Are your prices consistent with:
- your advertising/promotion?
- having motivated distributors?

STEPS FOR SETTING PRICES—

1. What are your specific pricing objectives?

2. How much flexibility do you have?

3. Should I use a pricing strategy in my business?

4. Establish prices and check the results

PRICING OBJECTIVES ARE—

Specific numerical and qualitative operating targets that reflect the role that prices should play in your marketing strategy.

PRICING OBJECTIVES

- Profits

- Sales or market share growth
  —Use numbers!

- Cash flow

- Competition—
  - Discourage new businesses from entering
  - Discourage price cutting and unstable prices
  - Become a price leader

- Support other marketing elements
  - Build the business image
  - Mutual benefit with distributors
  - Create a product line
  - Create interest in advertising
  - Other!

HOW MUCH PRICING FLEXIBILITY DO YOU HAVE?

1. Determine unit costs
   - This sets the "floor" for prices
   Use break-even analysis

2. Evaluate demand

3. Do you have price competitors?

4. Legal or ethical constraints?

EVALUATE DEMAND

- This sets the ceiling for prices.

- How sensitive are your customers to price changes?

- What % change in sales volume occurs when you adjust your prices by a certain %?

- If reduce prices by 25% and volume increases 100%, you win! Or if you increase prices 10% and volume decreases 5%, you still win!

WILL COMPETITORS GIVE YOU PRICING FLEXIBILITY?

- How do customers perceive the value of your products and services compared to competitors?
- What are competitors pricing strategies?
- Do you have higher or lower margins than competitors to sacrifice in price competition?
- Are your competitors resource rick and able to win a price war?
- Are your products a tiny percentage of customers' total costs?
- Are you small enough to be ignored by competitors?

DEVELOP PRICE STRATEGIES

- Price Variability?
  - Quantity, cash, or other discounts?
  - Different prices at different places, times, or slightly different products?
- General Price Level?
- Product Line Pricing?
- Stable Prices through Distributors?
- Where are Your Products on the Life Cycle?
- Psychological Pricing for You?

Cost-Plus Pricing

A. Cost $100
Cost Plus % 20%
Price $120

A. Cost	$100
Cost Plus %	20%
Price	$120

B. Markup PricingSelling Price = $\dfrac{\text{Unit Cost}}{\text{1 - Markup Percentage}}$

Stereo Speaker Producer	
Unit Variable Cost	$68.00
% Overhead allowance	15%
Overhead allowance	$10.20
Total Unit Cost	$78.20
Markup Percentage (other expenses plus profit)	45%
Selling Price	$142.18

Retailer: Tobacco Products	
Price/Cost to Retailer	$.68
Markup	20%
Selling price	$.85

Break-Even Pricing

Fixed Costs	$100,000.00
Unit Variable Cost	$2.00
Price per Unit	$4.00

$$\frac{100{,}000}{\$4 - \$2} = 50{,}000 \text{ Units}$$

Target Return Pricing

Fixed Costs $100,000
Variable Costs 160,000
Target Return - 20% x $260,000 =
$52,000

Target Total Revenue $312,000
Standard Output Level 80,000 units
Price $3.90

Competition-Rate Pricing

Competitors good price setters?

Your costs similar?

Will competitors retaliate?

Will your customers switch to competitors?

Is it appropriate for you?

Demand - Modified Break-Even Pricing Case:

Fixed costs	$200,000
Unit variable costs	$2.50

What is the estimated sales volume for prices of $10 or $15?

Based on your past experience and discussions (or even research) with customers, estimate what the sales volume would be. For example:

Price	Units Sold	Total Revenue	Total Costs	Break-Even Points	Profits
A. $10	55,000	$550,000	$337,500	26,667	$212,500
B. $15	45,000	$675,000	$312,500	16,000	$362,500

Conclusion: Alternative B has a lower break-even point and a higher profit.

Why?
Answer: The proportionate increase in price is much greater than the proportionate reduction in the number of customers.

PERCEIVED VALUE PRICING

Industrial Product Cost Savings

Prestigious Brands

Services Make It Difficult to Evaluate Products

* * * * *

Customers' Perceptions are Supreme!

WHICH PRICING METHOD SHOULD YOU USE?

One?

A Combination?

Above all, use integrated good judgment based on customers sensitivity, costs, competitors, and your moral standards.

Implementing Prices and Market Feedback

Customer Response

Distributor Response

Salesperson Response

Competitive Reaction

Make further adjustments?

New Product/Service Pricing

Is it new to customers?

Little or no competition?

Then use a skimming pricing strategy?

High initial price

Or better in the long run to use a penetration pricing strategy?

Low initial price

Pricing: Key Points to Consider:

1. Business Plan -> Marketing Plan -> Marketing Strategy -> Pricing Strategy

2. Will prices be an active, competitive part of your marketing strategy? What role will price occupy? Sales image, distributors, advertising?

3. Pricing Objectives: What do you want to achieve with prices?

4. How much pricing flexibility do you have? Costs - Demand - Competition - Ethics

5. Which price strategies fit your business? Price level? Image? Product line? Incentive distributors? Product life cycle pricing? Psychological pricing?

6. Which methods or combination are best for you?
   - Cost-plus and markup?
   - Break-even and target return?
   - Competition - rate?
   - Demand or perceived value pricing?

7. Implement and monitor

PRICE RANGE GUIDELINES

By: ______________________________ Date: ____________________

Product/Service: ____

Price range: $ _______ to $ _______

1. Price floor:

   (a) Markon (gross margin) is _____% of retail price.
   (b) Manufacturer's suggested price is $ _______
   (c) Fixed costs are $ ______. Variable costs are $ ______ or _____% of sales.
   (d) Breakeven is $ _______.

2. Special considerations for this product's price are:

   ____ Service
   ____ Status
   ____ Quality
   ____ Loss leader
   ____ Demand
   ____ Product life
   ____ Overhead
   ____ Downtime
   ____ Competition
   ____ Market penetration costs
   ____ Other (specify):

3. Turnover rate is _____ times per year.

4. Industry turn average is _____ times per year.

5. Going rate is _____.

6. I estimate _____ units will be sold.

7. _____ (number of units) at $ _____. (This estimate is based on the customer's perception of value.)

8. Top price possible is $ _____. (This estimate is based on the customer's perception of value.)

Comments:

Demand - Modified Break-Even Pricing Case:

Fixed costs$200,000
Unit variable costs$2.50

What is the estimated sales volume for prices of $10 or $15?

Based on your past experience and discussions (or even research) with customers, estimate what the sales volume would be. For example:

	Price	Units Sold	Total Revenue	Total Costs	Break-Even Points	Profits
A.	$10	55,000	$550,000	$337,500	26,667	$212,500
B.	$15	45,000	$675,000	$312,500	16,000	$362,500

Conclusion: Alternative B has a lower break-even point and a higher profit.

Why?

PRICING OBJECTIVES

By: ______________________________ Date: ____________________

Product/Service: ____

Refer to Figures 5.3 and 5.4 on pages 44 and 45 of *The Marketing Planning Guide*, and to Figure 5.5 on page 47. Fill out one of these forms for each product/service.

My pricing objectives are	This objective will accomplish	My time frame for reaching this objective is
1.		
2.		
3.		
4.		
5.		

Price, Location, and Sales Practices

All pricing policies are competitive.

Three of the most important (and difficult to establish) pieces of your marketing plan are price (how to set prices to maximize profits and achieve other goals), location (where you do business, including distribution patterns), and sales practices (how you sell your products).

Within limits, these are fixed. Prices are somewhat determined by market conditions and competition. Where you open shop may already be established, but can be changed. Distribution patterns and delivery routes depend on sales patterns and customer demand. Sales practices are perhaps the hardest patterns to change, and cause the most problems.

However, you do have some latitude in each of these areas. You don't have to play follow-the-leader, or put up with an inadequate location or inept sales practices. You can change them to your benefit and competitive advantage.

Question 19: How do you establish prices?
The dilemma is whether to aim for high volume/low prices (the Woolworth five-and-ten route) or low volume/high prices (à la Tiffany's).

This is complicated by the way your markets react to price changes. Does a small price rise lead to a large drop in unit sales, or does a big price rise lead to a negligible drop in unit sales? This sensitivity to price changes is called "price elasticity" and studies are often available through industry or trade associations. If your trade association doesn't have such studies, try sampling small segments of your markets. Your local college may be able to conduct an elasticity study for you, which has the additional benefit of shielding you from customers who may be highly price sensitive. Students conducting surveys can get away with more than you can in this delicate area.

Keep in mind that all pricing policies are competitive. Knowing how sensitive your target markets are to price change puts you at an advantage over firms which follow a reactive pricing policy, but there are many other factors to keep in mind.

To set your pricing policy, follow these five steps:
1. *Define your pricing objectives*. Tie these to your overall marketing and business goals (see Figures 1.3 and 1.5).

Some common pricing objectives include maintaining or building market share, maximizing profits or return on investment, meeting competition, introducing new products, increasing sales, or all of these.

The Market Planning Guide, Chapter 5, pp. 41-47. David H. Bangs, Jr., 1990.

Knowledge beats guesswork every time.

Figure 5.1
Pricing Factors

PRICE = Image + Service + Product + Overhead + Profit
These influence pricing policies:

1. *Price sensitivity* (elasticity).
2. *Quality*. High quality and high prices often go together.
3. *Product differentiation*. High differentiation and high prices, and low differentiation (commodity products) and low prices, often go together.
4. *Competition*. Competitive markets and price chopping as a market share strategy go together.
5. *Service*. The more service you provide, the higher the price. A fully assembled, carefully chosen bicycle from a cycle shop costs more than the same bike bought disassembled from an outlet store.
6. *Location*. Stores on Rodeo Drive command higher prices than those located in local shopping malls.
7. *Target markets*. Some markets buy on price. A low price can scare people off ("The price is so low—what's wrong with this?") or be an excellent marketing tool. Know your markets.
8. *Marketing objectives*. Are you looking for market share? Profits? New markets? Your objectives must be reflected in your price strategies.
9. *Your business costs*. Your pricing has to reflect your business, not someone else's.

Perceived value to customers = Product + Intangibles (service, quality are examples) + Specialized expertise

---

2. *Establish price ranges*. This is complicated, so call in your accountant or financial advisors. Three questions to raise when setting price ranges are:

A. *What is your break-even point?* (See Figure 5.2.) This establishes the low end of the acceptable range. You must at least meet your expenses (break even) before you can make a profit. Can you reach your breakeven point given sales forecasts and current prices? How far can you exceed it?

B. *What are your profit goals?* If you can't reach the profit goals given unit sales forecasts and acceptable prices, you might want to rethink your strategies, or market more aggressively. (See Figures 1.5 and 2.9.)

C. *How do your target markets perceive your products/services?* This includes questions of price sensitivity as well as product differentiation. Oddly enough, the small business scourge "lack of courage in pricing" often stems from not knowing how the market perceives the value of products and services. Don't guess here. Use surveys, questionnaires, market research, and trade studies. Knowledge beats guesswork every time. This piece of knowledge helps you establish the upper limit of your price range. Sometimes this is called "what the market will bear."

Fill out Figure 5.3 for each product/service or each product/service line. Save these forms for future review.

Figure 5.2
Break-Even Analysis

Break-even analysis pinpoints where revenue equals total costs. To calculate your break-even point, take your most current income statement and identify each cost as either fixed or variable. Fixed costs are independent of sales level, while variable costs rise and fall with sales. Mixed costs involve elements of both. Most costs will fall readily into fixed or variable. For those that don't, allocate 50% to fixed costs, and 50% to variable.

Fixed Expenses:
- Salaries
- Payroll tax
- Benefits
- Utilities
- Licenses and fees
- Insurance
- Advertising
- Legal and accounting
- Depreciation
- Interest
- Maintenance and cleaning

Variable Expenses:
- Sales commissions
- Sales tax
- Boxes, paper, etc.
- Travel
- Freight
- Overtime
- Bad debts

Mixed:
- Telephone
- Postage

The break-even formula is:

BE = F/(S-V)

where BE = break-even sales in dollars
F = fixed costs in dollars
S = sales expressed as 100%
V = variable costs as a percentage of sales

If F = $10,000, S = 100%, and V = 50%, then BE = ($10,000/50%) = $20,000.

In other words, costs will exceed revenue until you have sold $20,000 worth of goods.

Figure 5.3
Price Range Guidelines

By: GL ______ Date: 2/12/87

Product/Service: All accounting services

Price range: $ 40/hr to $ 75/hr

1. Price floor:

   (a) Markon (gross margin) is ____% of retail price.
   (b) Manufacturer's suggested price is $ ________.
   (c) Fixed costs are $ ________. Variable costs are $ _______ or _____ % of sales.
   (d) Breakeven is $ _______.

2. Special considerations for this product's price are:

   - [x] Service
   - [ ] Status
   - [x] Quality
   - [ ] Loss leader
   - [ ] Demand
   - [ ] Product life
   - [ ] Overhead
   - [ ] Downtime
   - [ ] Competition
   - [ ] Market penetration costs
   - [ ] Other (specify):

   Something to think about: Our fees can be higher if the client's perception of value is raised!

3. Turnover rate is _____ times per year. Not applicable

4. Industry turn average is ______ times per year. "

5. Going rate is $50 to $100/hr

6. I estimate ______ units will be sold. Not applicable

7. 31 hours/week ~~(number of units)~~ at $ 75/hr. will cover my fixed costs.

8. Top price possible is $ ______. (This estimate is based on the customer's perception of value.)

Comments:

3. *Define competitive pricing strategy.* See Figure 5.4 for some ideas. Since all pricing strategies are competitive, a major factor in your choice will be what the other guys are doing. This doesn't mean that you want to follow them. It does mean that you want to know what they are doing so you can defeat them in the marketplace.

Your price strategies have to reflect your business's cost structures and profit goals, not someone else's.

Figure 5.4
Price Setting Thoughts

Consider setting prices above your competitor's prices if:

- ☐ Your market is not sensitive to price changes.
- ☐ Your market consists mainly of growing businesses.
- ☐ Your product is an integral part of an established system.
- ☐ Your reputation for status, service, and other positive perceptions in the market increases your products' perceived value.
- ☐ Your customers can easily build your price into their selling price.
- ☐ Your product is only a tiny percentage of your customers' total costs.

Consider setting your prices just below your competition if:

- ☐ Your market is sensitive to price changes.
- ☐ You're attempting to enter a new market.
- ☐ Your customers need to reorder parts or supplies.
- ☐ Your business is small enough that a lower price won't cause your larger competitors to start a price war.
- ☐ You have the option of economical production or purchasing which decreases your unit cost.
- ☐ You have not reached full production capacity.

4. *Consider the impact of product lines, inventory costs, and selling costs.* Sometimes you have to flesh out a product line to meet other competitive pressures and rather than carry the product forever, you decide to turn it over even at a loss. Inventory costs are a hidden burden on many retail businesses (ask your accountant) and can drive up your short-term borrowing needs.

Some businesses find that sales costs are the dominant pricing factor. Think of encyclopedia sales, where everyone from the door-to-door salesperson on up gets a commission. The $600 price is based on a minimal product cost, plus a substantial research and development cost, plus a staggering sales cost.

Keep your costs in mind when setting prices. Your price strategies have to reflect your business's cost structures and profit goals, not someone else's.

5. *Choose a flexible pricing strategy.* Every industry has its own favorite pricing strategy, and you should use your industry pattern as a guide.

Set firm price ranges for each product/ service or product/ service line, keep an eye open for competitive moves, and check constantly to ensure that your prices serve your profit and other marketing objectives.

The four main methods of determining price are:

A. *Suggested or going rate.* This is the least defensible method, since it removes your business from the pricing decision. This is far and away the most common method: It is simple. It takes no work. It also is almost totally ineffective.

B. *Full-cost pricing.* Full-costing may be appropriate if you can identify all your operating costs, then distribute them over merchandise costs, add a preset profit, and crank out the prices. One weakness of this method is that the merchandise has to be sold, and in sufficient quantities to push you past the break-even point. Another more glaring weakness is that full-cost pricing presupposes that your accounting system is able to capture all the costs and make accurate forecasts.

The advantage is that full-cost pricing makes pricing simple. It is most helpful as a guideline, and can help narrow the price ranges set earlier.

C. *Gross margin.* This can be figured either as a markup (adding a percentage of wholesale cost to your base cost) or as a markon (percent of the retail price represented by the gross margin).

This method takes operating costs and market factors into account, but is only as good as your ability to meet projected sales levels. The big advantage is that gross-margin pricing helps set uniform price floors. You can then change prices to reflect market conditions, the market's sensitivity to price change, competition, and so on.

D. *Flexible markups.* This is less rigid than full-costing, and is particularly helpful during periods of fluctuating prices. It demands that you have information about your market's sensitivity to price changes.

The main weakness of this approach is that it is all too easy to pursue sales at the expense of profit. While you don't want to hold on to inventory too long, you don't want to give it away either. This is a problem most merchants have to grapple with.

The best method of all is to combine the strengths of these four methods. Set firm price ranges for each product/service or product/service line, keep an eye open for competitive moves, and check constantly to ensure that your prices serve your profit and other marketing objectives. Whatever you do, don't slap a price on your products and refuse to change it when conditions change. Rigidity is as great a danger as being totally reactive to every market whim.

Try to ascertain factual answers to the questions in Figure 5.5 when you set pricing policies.

The three most important factors in retail business are location, location, and location.

Figure 5.5
Pricing Checklist

Estimating demand:
1. Which products/services do customers shop around for?
2. Which products/services are in greater demand even at higher prices?
3. Are certain products/services in greater demand at one time of the year than another? If so, which? And what is the duration of that demand?
4. Do your customers expect a certain price range?
5. What is the balance between price and quality in your market?

The competition:
1. What are your competitors' pricing strategies?
2. Are your prices based on an average gross margin consistent with your competitors'?
3. Is your policy to sell consistently at a higher price, lower price, or at the same price as your competitors? Why?
4. How do your competitors respond to your prices?

Pricing and market share:
1. What is your present market share?
2. What are your market share goals? To increase share? Maintain share?
3. What effect will price changes have on your market share?
4. Is your production capacity consistent with your market share goals?

Strategy:
1. Have you determined how pricing affects your sales/volume goals?
2. How can pricing help you gain new business?
3. Have you tested the impact of price strategies on your markets?
4. Are your strategies in line with broader economic trends?

Policies:
1. How does the nature of your products affect their price?
2. How does your method of distribution affect price?
3. Do your promotional policies affect prices?

Question 20: How does your location affect you?
According to Small Business Administration studies, the most common reason to pick a new business site is "noticed vacancy." Since the three most important factors in retail business are location, location, and location, it is no surprise that many small businesses never reach their potential.

If you are already in business, you still have to keep track of your trading area. Maybe you're considering a move to a new location, or building a branch office. New roads are constructed. Populations shift, zoning ordinances are altered, competitors come and go. If you can identify the advantages and disadvantages of your location, you can do something about them.

MARKETING FOR SMALL BUSINESS INSTITUTES IN POLAND

Part Two

Sponsored by

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Gdańsk, Poland

Polish American
Enterprise Institute
Poznań, Poland

Center on Education and
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The Ohio State University
Columbus, Ohio

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MARKETING FOR SMALL BUSINESS INSTITUTES IN POLAND

Gerald E. Hills
Walery Lach
Bogdan Sojkin
M. Catherine Ashmore
Piotr Koryński

Solidarność Economic Foundation
Gdańsk, Poland

and

Center on Education and Training for Employment
The Ohio State University
1900 Kenny Road
Columbus, Ohio 43210-1090

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S.Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Bialystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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Journal of Business Research
Fortune Magazine
Journal of Small Business Management
Business Magazine
Survey of Business
Harvard Business Review

MARKETING MODULE

INTRODUCTION

Small business owners and managers become successful by identifying the needs of customers in the marketplace and then creating and delivering products and services to fulfill those needs at an acceptable price, with appropriate promotion. Profits are the end result because potential customers are more satisfied with your company than with your competitor's.

Marketing begins with an understanding of customers, competitors, the industry and the changing environment. This information provides the foundation for good decisions regarding which products and services to offer; what prices to charge; which distribution methods to use; and how to effectively use advertising, personal selling, publicity and/or sales promotion to sell the products. Promotion is but one part of marketing and is usually less important to success than the products, prices and distribution offered. Together, these components comprise marketing. When these decisions are made so as to "fit" a specific market and to reach specific marketing objectives (for example, sales level or building an image for the business), the small business owner has a "marketing strategy."

Marketing is a major group of competencies that address basic business choices for effectively competing. This survey course should introduce the competencies needed to develop a customer orientation for a small business and increase profitability.

Marketing competencies include the ability:

- To develop and implement a marketing plan as a major part of the strategic plan.
- To analyze your market with attention to industry analysis, competitor analysis, target market profile, and sales projections.
- To use a process for developing new products, prepare strategies for products, and identifying the unique aspects of marketing services.
- To learn how to make more profitable pricing decisions.
- To make channels of distribution decisions as part of a marketing strategy.
- To use the promotional mix—advertising, sales promotion and publicity to increase sales and profitability.
- To effectively use selling and sales management within the marketing program.
- For retailers, to learn useful unique aspects of retailing management and financial strategy.

This set of materials is designed to provide a basis for businesses to be created and be more successful because of effective marketing!

DISTRIBUTION CHANNELS AND LOGISTICS

UNIT 5

Title: **DISTRIBUTION CHANNELS AND LOGISTICS**

Purpose: This unit is designed to introduce the role and importance of marketing channels.

Objectives: Upon completion of this unit, participants will—

- understand that distribution channels and logistics are part of an overall marketing strategy.
- know of alternative channels they could consider for distributing their products and services.
- have applied criteria for selecting alternative channels to their business.
- have a new understanding of the physical distribution system.
- have considered appropriate physical distribution objectives and cost/service trade-offs for their business.

Materials:

Transparency 5-1:	Unit Overview
Transparency 5-2.	Marketing Intermediaries and Channels of Distribution
Transparency 5-3:	Possible Channel Relationships
Transparency 5-4:	Functions of Channel Intermediaries
Transparency 5-5:	Merchants, Agents, and Facilitators
Transparency 5-6:	Economics of Distribution
Transparency 5-7:	Types of Wholesalers
Transparency 5-8:	Types of Retailers
Transparency 5-9:	Five Different Flows
Transparency 5-10	Direct Distribution
Transparency 5-11:	Types of Channels
Transparency 5-12:	Customer Service
Transparency 5-13:	Channel Objectives
Transparency 5-14:	Identifying Channel Alternatives
Transparency 5-15:	Evaluation and Selection of Channels
Transparency 5-16:	Selecting Channel Participants
Transparency 5-17:	Motivation of Channel Members
Transparency 5-18:	Sources of Conflict
Transparency 5-19:	Conflict Management
Transparency 5-20:	Changing Channel Arrangements

Transparency 5-21:	Business Logistics
Transparency 5-22:	Components of the Physical Distribution System
Transparency 5-23:	Modes of Transportation
Transparency 5-24:	Comparison of Transportation Modes
Transparency 5-25:	Cost of Inventory
Transparency 5-26:	Basic Warehousing Decisions
Transparency 5-27:	Order Processing
Transparency 5-28:	The PDS Planning Process
Transparency 5-29:	Managing Physical Distribution

Handout 5-1:	Functions of Channel Intermediaries
Handout 5-2:	Marketing Intermediaries
Handout 5-3:	Types of Wholesalers
Handout 5-4:	Types of Retailers
Handout 5-5:	Luxottica Group: Cutting Out the Middleman
Handout 5-6:	Designing a Channel Configuration
Handout 5-7:	Motivation, Conflict, and Conflict Management
Handout 5-8:	Business Logistics and the Components of the Physical Distribution System
Handout 5-9:	Modes of Transportation
Handout 5-10:	A High Tech Rx for Profits
Handout 5-11:	The Physical Distribution System Planning Process
Handout 5-12:	Driving for the Market's Heart
Handout 5-13:	What Sam Walton Taught America

Activities/Exercises for Participants:

Short discussions (10-15 minutes) of the four assigned readings are the primary activities in which students engage during the presentation of this unit. The estimated time for these activities is a total of 40 minutes.

Suggested Timelines:

Marketing Intermediaries	30 minutes
Developing Channel Strategy	50 minutes
Avoiding Conflict	10 minutes
Changing Channel Arrangements	20 minutes
Physical Distribution	20 minutes
Components	25 minutes
PDS Planning	15 minutes
Managing Physical Distribution	10 minutes

UNIT 5

DISTRIBUTION CHANNELS AND LOGISTICS

CONTENT	PROCESS
A. Distribution and Marketing Intermediaries	
In this unit, the role and importance of marketing distribution channels and logistics are presented.	Show TP 5-1: Unit Overview
1. Justification for Using Marketing Intermediaries	
Marketing intermediaries, or middlemen, exist to provide distribution services for firms that choose not to deal directly with the users of their products. In making this decision, firms may lose some control over how and to whom their products are sold. But, in exchange, they can gain greater efficiency in making their goods available to their target markets. As an efficient distribution channel moves products from producers to consumers, it overcomes "gaps" that separate products from the consumers who would use them. Those "gaps" can be spatial (the geographic distance between the manufacturing plant and the consumer) or temporal (the time between the actual production of a good and the growth of consumer demand for the good).	Show TP 5-2: Marketing Intermediaries and Distribution Channels
Functions that can be performed by channel intermediaries include:	Show TP 5-3: Possible Channels

CONTENT	PROCESS

information—gathering and disseminating research and intelligence about the market environment.

TP 5-4: Functions of a Channel Intermediary

Distribute HO 5-1: Functions of a Channel Intermediary

promotion—developing and spreading persuasive communication about the product offer.

contact—locating and communicating with prospective buyers of the product.

matching—modifying a product offering to better fit the buyer's needs including the activities of grading, assembling, and packaging.

negotiation—reaching an agreement on the terms of the sale so that the transfer to possession can take place.

physical distribution—transporting, storing, and delivering of the goods.

financing—acquiring and using funds to pay for all or some of the costs of distribution.

risk-taking—assuming all or some of the risks associated with performing the functions listed above.

2. **Types of Marketing Intermediaries**

Marketing intermediaries can either be merchants or agents. Merchants assume ownership or possession of a product and then resells it. Agents, or brokers, bring the buyer and seller together to negotiate the exchange of the good, but they do not take title to the product. Those firms that neither take title to a good nor bring parties together to negotiate are referred to as facilitators.

Show TP 5-5: Merchants, Agents, and Facilitators

Distribute HO 5-2: Marketing Intermediaries

If the intermediary sells primarily to final consumers, then it is known as a retailer. On the other hand, if the intermediary sells goods primarily to other institutions, then it is known as a wholesaler.

CONTENT	PROCESS
a. **Wholesaling.** Wholesalers justify their existence by providing services to both their suppliers and their customers. Their obvious contribution to flow of goods through a distribution channel is in centralizing transactions. Instead of requiring every manufacturer to contact every possible retailer, the manufacturer can contact a single wholesaler who, in turn, contacts the retailers. This reduces the total number of relationships that all parties (manufacturers, wholesalers, and retailers) have to make.	Show TP 5-6: Economies of Distribution Ask participants to draw the channel of distribution for their businesses. Ask them to share their results.
But, wholesalers can provide a number of services to both manufacturers and retailers. For manufacturers, they can provide selling services, information, physical distribution activities, and risk bearing. For retailers, wholesalers can provide physical distribution services, credit, information services, and purchasing services (variety, packaging, assembling).	Show TP 5-7: Types of Wholesalers Distribute HO 5-3: Types of Wholesalers
Wholesalers can be categorized by the number and type of services that they provide.	Ask participants to describe the type of wholesalers they are and those they work with.
b. **Retailing.** Like wholesalers, retailers exist to provide service to other channel members. Unlike wholesalers, retailers sell primarily to customers who are purchasing for their own personal use or the use of their households.	
Retailers can be categorized by the number of services they provide and the breadth of their product line.	Show TP 5-8: Types of Retailers Distribute HO 5-4: Types of Retailers

CONTENT	PROCESS
Retailers, as a category, includes a range of store types from full-service department stores to non-store retailers like mail order houses.	Classify types of retailers in the class and discuss different goals of each type.
3. Different Channel Flows	
The institutions that constitute the distribution channel are connected together by a number of different channel <u>flows</u>. These flows include the physical flow of the product, the actual physical movement of the product from one point to another, as well as the flows of ownership, payment, information, and promotion. Each of these flows can connect all or only some of the institutions in the channel. Thus, the relationships among channel members can become very complex.	Show TP 5-9: Five Different Channel Flows
4. Should you use direct distribution?	
A direct distribution channel has no intermediary levels, or stages. It is a channel in which the manufacturer sells directly to the end-use consumer.	Show TP 5-10: Direct Distribution
The decision to distribute directly to consumers depends on a manufacturer's abilities, resources, and objectives. If the firm has the resources and the skills to perform the functions commonly performed by intermediaries, that firm must still consider whether it is in its best interest to distribute directly. Can those resources and skills be better used in the production of goods? Is maintaining complete control of the distribution of product a primary objective of the firm? Are their institutions better able to distribute the product?	

CONTENT	PROCESS
B. Developing a Channel Strategy The three factors that impact the development of a firm's distribution strategy are <u>cost</u>, <u>control</u>, and <u>coverage</u>. A firm's emphasis on cost reduction will effect the amount and kind of service that can be provided with the product. A firm's desire to maintain control of the "how" and "to whom" aspects of distribution will have a limited number of attractive channel alternatives from which to choose. A firm's need to provide customers with easy access to the product will need to design a channel that provides intensive distribution of the product. Cost, control, and coverage become the criteria by which a distribution channel is designed and by which an existing distribution strategy is evaluated.	
1. Types of Channels	
Distribution channels can be a loose confederation of independent firms tied together by the various channel flows <u>or</u> they can be high structured and organized characterized by well-defined, formal interactions between channel members. Traditionally, distribution channels were voluntary, associations of firms with little formal structure. In recent decades, vertically integrated marketing systems (VIMS) have evolved that formally define the roles and responsibilities of each channel member. Channels can be classified according to the way they are organized and structured.	Show TP 5-11: Types of Channels

CONTENT	PROCESS
a. **Conventional.** A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. Each channel member is a separate business seeking to maximize its own objectives. No formal guidelines exist for assigning roles or resolving conflict. Such channels can be successful as long as the individual firms' objectives are congruent with the objectives of the distribution system as a whole.	
b. **Ownership.** A vertically integrated marketing system can occur through the single ownership of the successive stages of production and distribution. Essentially, the entire production and distribution systems are under full or partial control of one owner. Thus, cooperation and conflict resolution is handled through a traditional organizational hierarchy.	
c. **Contractual.** In a contractual VIMS, independent firms at different levels of the production and distribution systems establish contractual relationships with one another to increase the likelihood of achieving their mutual objectives. There are typically three kinds of contractual VIMS's:	
Wholesaler-sponsored voluntary chains are systems where a wholesaler organizes a group of independent retailers, through contracts, in order to help them compete with large chain store operations. The wholesaler coordinates the voluntary chain and the	

CONTENT	PROCESS

retailers agree to standardize their selling practices and they can achieve economies of scale by buying large quantities of products as a group.

Retailer cooperatives are a form of VIMS in which retailers agree to form and jointly-own a new business which provides wholesaling functions and possibly even production functions for the retailers.

Franchising involves one channel member, a franchiser, linking together several production and distribution stages together. Several forms of franchise systems exist including manufacturer-sponsored wholesaler systems (e.g. Coca-Cola's licensed bottlers), manufacturer-sponsored retailer systems (e.g. General Motors licenses automobile dealers), and service-firm retailer systems(e.g. McDonald's, Hertz Rent-a-Car).

d. **Administered**. In an administered VIMS, one channel member coordinates the channel through the use of his size or power rather than through direct ownership or contractual agreements. A manufacturer of a popular brand can often achieve strong cooperation and support from retailers who desire to carry the brand. When control of the channel evolves informally as the result of one channel member's size or economic power, that channel member is referred to as the channel captain.

CONTENT	PROCESS
DISCUSSION: "Luxottica:..."	*Teaching Note:* Provide the participants with HO 5-5: Cutting Out the Middleman and let them read for a while. In discussing "Luxottica:..." the important questions to ask are: Why is ownership of the channel the best way for Luxottica to vertically integrate? [the market is fragmented, Luxottica does not have the size or economic power to administer the channel; the number of distributors is extensive and hard to control without direct ownership or contracts] What is the next stage of development for Luxottica's distribution strategy? [improving customer service] Based on the description in the article, how does Luxottica define customer service? [reducing physical distribution time; simplifying order processing and inventory control]
2. Designing the Channel Configuration Prior to designing a distribution channel, two factors must be considered. First, the desired service desired by the targeted customers has to be assessed. Customer service is defined as:	Distribute HO 5-6: Designing a Channel Configuration
"Providing the right products in the right quantities at the right place at the right time at the right price."	Show TP 5-12: Customer Service

CONTENT	PROCESS
In other words, the target market has expectations related to the five service outputs of distribution channels—lot size, waiting time, spatial convenience, product variety, and service backup. The channel designer must estimate what those expectations are and incorporate them into the channel design. However, providing increased service levels means increased costs for the channel that translates into higher prices for consumers.	
Second, the channel designer must set objectives for the channel in terms of the estimates of desired service levels. Given these objectives, it is then possible to identify, evaluate, and select the appropriate channels and channel members.	Show TP 5-13: Channel Objectives
a. Identifying Channel Alternatives	
In identifying the alternative channels that available or appropriate for distributing a product, it is necessary to consider a number of issues related to the firm's overall strategy and the target market.	Show TP 5-14: Identifying Channel Alternatives
First, what **intensity** of distribution is desired? Is intensive, selective, or exclusive distribution desired? Will the consumer travel to an exclusive distributor? Or, does the consumer expect the product to be conveniently available?	
Does the channel provide **access to end users**? Is this the best way to reach your targeted consumers? Are there better or more innovative ways of reaching the consumer?	

CONTENT	PROCESS
What are the **prevailing distribution practices**? How have these existing practices influenced the expectations of your consumers? Will consumers reject different channel strategy?	
For what **activities and functions** do you wish the other channel members to be responsible? What activities are unable or unwilling to perform in the distribution process?	
The answers to these questions define the characteristics of the ideal channel. In addition, they provide the basis for evaluating the different alternatives.	
b. Evaluation and Selection of Channels to be Used	
In evaluating the channels alternatives identified, the channel designer must consider the economic, adaptive, and control effects of each alternative.	Show TP 5-15: Evaluation and Selection of Channel
Revenue-Cost Analysis. Which channel alternative provides the greatest net revenue (revenue - costs = net revenue)? Each channel alternative has a different level of sales and costs associated with it. Thus, it is necessary to compare the potential revenue with the associated costs for each alternative.	
With which alternative do you retain your desired **control of the channel**? As the use of intermediaries tends to reduce the firm's control of "how" and "to whom" a product is sold, each alternative should be evaluated regarding its impact on the producer's control.	

CONTENT	PROCESS
Are there **legal constraints** preventing the use of a particular channel? In some situations, the potential restraint of trade that may occur as a result of using a particular channel or distribution method will prevent the selection of that alternative?	
Is a desirable **channel** alternative **available**? Not all possible combinations of channel relationships exist in all market situations. If a desired channel does not exist, then it may be necessary to create the channel and the needed channel institutions. Or, it may be necessary to choose a less optimal alternative.	
c. Selection of Channel Participants	
Once a particular channel design has been selected then the firm must select specific institutions to participate in the channel. In some instances there may be a number of intermediaries interested in participating in a channel relationship. In other cases, particularly when innovative products are involved, it may be difficult to attract potential channel members. However, in all cases the potential channel member must be evaluated along the following lines:	Show TP 5-16: Selecting Channel Participants
Can a particular channel participant provide the needed **market coverage**?	
What are the potential member's **capabilities**? Can they perform the necessary functions?	

CONTENT	PROCESS
What are the potential **intermediary's needs**? What do they expect in return for providing the services requested? Is that potential channel member **available**? Do they currently have relationships with other companies that prevent them from serving as part of this channel?	
C. Motivating and Avoiding Conflict with Channel Members It is the hope in all channel relationships to maintain cooperative and mutually beneficial relationships. Unfortunately, cooperation between channel members does not always occur and conflict can not always be avoided. Thus, it is important to understand how to motivate channel members and how to resolve conflict when it occurs.	
1. **Motivation**. Typically, there are three levels of motivation that can be applied to distribution channels— <u>cooperation</u>, <u>partnership</u>, and <u>distribution programming</u>.	Show TP 5-17: Motivation of Channel Members Distribute HO 5-7: Motivation of Channel Members
In conventional channel relationships, the traditional approach to motivating channel members involves the use of positive or negative motivation. Positive motivation might include offers of higher margins, special deals, or cooperative advertising. Negative motivation might include threats of lower margins, reduced availability of product, or ending the distribution relationship. It is believed that the application of the positive offer or the negative threat will	

CONTENT	PROCESS
gain the desired agreement or behavior on the part of the targeted channel member. In recent years, alternative approaches to motivation have evolved. The partnership approach involves establishing long-term relationships with channel members. It is the mutual agreement to maintaining a long-term relationship that makes it in the best interests of both parties to work toward common goals and targets. The roles and responsibilities of each party may be specified in a written agreement in an effort to avoid future conflict. Distribution programming has evolved with the emergence of vertically integrated marketing channels. With single ownership or control of the channel, the goals, roles, and responsibilities for individual channel members can be established by a single planner/decision-maker with little need for negotiation or conflict resolution. Changes in the environment result in changes in distribution planning, but such changes are implemented by one single authority.	
2. **Sources of conflict.** Channel conflict can have several causes, including goal incompatibility, unclear roles and rights of channel members, differences in perception, and the great dependence intermediaries have on the actions of manufacturers. If two channel members are striving to maximize profits for their individual firms to the detriment of the other	Show TP 5-18: Sources of Conflict

CONTENT	PROCESS
members of the channel, those two goals may be incompatible. If the functions, activities, or responsibilities are not clearly defined for each channel member, that confusion in the roles and rights of each member may lead to conflict. People and organizations can perceive events in the environment differently. If two channel members perceive the market environment differently, drawing different conclusions, conflict can result. As the success of an intermediary becomes more closely linked to the actions of a single manufacturer, the intermediary's interest and concern with the decisions of a manufacturer can lead the two into conflict.	
3. **Conflict management**. Resolving conflict may involve the mutual adoption of superordinate goals which are goals focusing on the mutual benefit of two parties. Diplomacy, mediation, and arbitration may be used to negotiate and resolve issues underlying conflict. Channel members may choose to exchange individual employees between the two firms so that each firm will gain a greater understanding of the functioning and goals of the opposing firm. Cooptation, the incorporation of a channel member firm into the actions and decisions of another firm can aid in avoiding conflict. Such incorporation	Show TP 5-19: Conflict Management

CONTENT	PROCESS
may involve the creation of advisory committees, task forces, or adding the executives of channel member firms to your company's board of directors.	
D. Changing Channel Arrangements	
Modification of a channel is needed when customer buying patterns change, the market expands, the product matures, new competition enters the market, or the channel alternative emerge.	
Three levels of modification can occur:	Show TP 5-20: Changing Channel Arrangements
1. An individual channel member can be added or dropped. 2. A particular channel can be added or dropped. 3. An innovative new way of distributing products can be developed.	
Each level of modification requires an increasingly thorough re-examination of the impact of the change on costs and revenues. As channel members or entire channels are dropped or added additional costs may occur and existing costs may have to be spread over fewer/greater number of products and firms. Estimates of the impact of channel modification on expected revenues also have to be considered.	
E. The Important Role of Logistics and Physical Distribution	
Physical distribution and logistics have often been used as interchangeable terms. However, business logistics is	

CONTENT	PROCESS
broader in scope than is usually discussed in a marketing context.	
Business logistics has been defined by Coyle and Bardi (1984) as:	Show TP 5-21: Business Logistics Distribute HO 5-8: Business Logistics
"The systematic and coordinated set of activities required to provide the physical movement and storage of goods (raw materials, parts, finished goods) from vender/supply services through company facilities to the customer (market) and the associated activities—packaging, order processing, etc.—in an efficient manner necessary to enable the organization to contribute to the explicit goals of the company."	
Business logistics overlaps both operations management and marketing in that an effective and efficient logistics system is required to achieve the objectives of operations and marketing.	
For this module, we will limit the discussion of business logistics to the activities required to efficiently move and store finished goods from the manufacturer to the final consumer. Given this purpose, the term physical distribution will be used.	
F. Components of the Physical Distribution System	
The functions of physical distribution are transportation, inventory management, warehousing, and order processing.	Show TP 5-22: Components of the Physical Distribution System

CONTENT	PROCESS
1. Transportation	
For many goods, transportation is the largest, single expense. There are five basic modes of transportation. Each mode has its own set of advantages and disadvantages. And, each mode must be evaluated in the context of the product, market, and environmental constraints present in the specific situation.	Show TP 5-23: Modes of Transportation Distribute HO 5-9: Modes of Transportation Show TP 5-24: Comparison of Transportation Modes
As a result of <u>containerization</u>, shippers are increasingly combining two or more transportation modes (referred to with names like piggyback and fishyback). Containerization consists of putting goods in boxes or trailers that are designed to be used with multiple transportation modes. The use of coordinated modes of transportation increases flexibility and convenience for both the shipper and the customer. At the same time, it can prove to be cheaper than using a single mode alone. <u>Piggyback</u> refers to the use of trains and trucks; <u>fishyback</u> refers to the use of water and trucks; <u>trainship</u> refers to trains and water; <u>airtruck</u> refers to air and trucks.	
Fundamental questions that firm's must ask when evaluating and selecting transportation methods include:	
Is it **Cost-Effective**? Are the needs of the market and the characteristics of the product such that the cost of the transportation method is warranted?	
Do or Buy? Should the firm hire carriers? Or, should the firm create its own transportation systems?	

CONTENT	PROCESS
2. Inventory Management and Control	
Firms hold inventories for two reasons:	
1. Goods can be shipped when they are ordered. 2. Production scheduling does not have to match the timing of purchase orders.	
Managing inventories requires that one forecast the timing and volume of purchase orders given an understanding of customer buying patterns, the state of the economy, and the effects of the firm's promotional efforts.	Show TP 5-25: Cost of Inventory
Effective and efficient inventory management requires that managers monitor and control costs. The ultimate goal of managing inventory costs is minimizing the <u>total cost of inventory</u> while maintaining the <u>desired level of customer service</u>. There are two sources of costs for inventory--ordering costs and carrying costs. Ordering costs are the costs of processing orders for additional goods to be stored. Carrying costs are costs of maintaining and storing goods in inventory.	
Note: If participants are interested and mathematically capable, the instructor might choose to add a discussion of inventory control models here. Other material would have to be deleted as teaching inventory control models would require at least 1 hour. The basis of such a lecture could be based on Coyle and Bardi (1984) which is attached as a reference for instructors.	

CONTENT	PROCESS
3. Warehousing	
When it is not economical to send goods directly to customers or wait until purchase orders arrive to begin creation of a good, firms may choose to store finished goods in warehouses that are closer to the customers than the manufacturing plant. Firms may choose to either build their own warehouses or they may rent space in public warehouses.	
The rationale for holding warehouse inventory is based on three facts:	
1. Transportation and production economies can result from producing and shipping in bulk. 2. Increased customer service result from minimizing the time between the receipt of a purchase order and the delivery of the good into the hands of the consumer. 3. Seasonality in demand and variability in production seldom match, resulting in a need to have <u>safety stock</u> as a way of assuring the firm's ability to meet consumer demand.	Show TP 5-26: Basic Warehousing Decisions
4. Order Processing	
Order processing is a form of information processing involving taking orders for goods, checking them, recording them, and giving instructions for sending goods on their way. If goods are sold on credit, order processing may involve credit checks. Speed and efficiency are the keys to success in effective order processing.	Show TP 5-27: Order Processing

CONTENT	PROCESS

DISCUSSION: "Walgreen:...

Teaching Note:

Provide the participants with HO 5-10: High-Tech Rx for Profits and let them read for a while.

Ask participants to explain:

How can Walgreen maintain higher prices than their competitors and still succeed? [By increasing the use of technology, Walgreen manages to reduce costs related to order processing and increase customer service]

How does the use of technology decrease costs? [reduces time and effort in ordering product, increases control of inventory, releases labor to perform other tasks]

G. The Physical Distribution System (PDS) Planning Process

Planning a physical distribution system requires that the firm establish clear and specific objectives for the system, assess customer service needs, examine the service-cost tradeoffs, identify system alternatives, select from among those alternatives, and manage the system on an ongoing basis.

Show TP 5-28: The PDS Planning Process

Distribute HO 5-11: The PDS Planning Process

1. Establish PDS Objectives

Establishing PDS objectives involves evaluating the possible tradeoffs between the different PDS activities in order to achieve the most efficient and effective system overall. These decisions must be made on a total-system basis.

CONTENT	PROCESS
In designing the PDS, consideration must be given to **Customer Service** and the **Service-Cost Tradeoffs** before one identifies PDS alternatives and designs a specific PDS.	
<u>DISCUSSION:</u> "Nissan Corp...."	*Teaching Note:* Distribute to participants HO 5-12: Driving for the Market's Heart and let them read for a while. Ask participants to explain: How does Nissan plan to improve its position in the U.S. market? [improving customer service] How do they plan to improve customer service? [faster com-munication systems, cooperative advertising, improved service to car dealers and car buyers]
H. Managing Physical Distribution	
Physical distribution and business logistics is an area of potentially high cost savings, improved customer satis-faction, and competitive advantage. However, to manage a PDS a firm must monitor not only the **Costs** associated with the system, but it must also measure the system's success in **achieving** the **objectives** of the system.	Show TP 5-29: Managing Physical Distribution

CONTENT	PROCESS
DISCUSSION: "What Sam Walton Taught America"	*Teaching Note*: Provide the participants with HO 5-13: What Sam Walton Taught America and let them read for a while. In many ways, this short article on the success of Sam Walton shows the integration of distribution strategy with other business functions and decisions. Ask participants to explain: Why is information flow important in this company? [allows quicker decision making; allows more thorough management of channel] What kind of channel is this an example? [administered VIMS] What kind of motivation technique would be used in such a channel? [distribution programming]

UNIT 5: DISTRIBUTION CHANNELS AND LOGISTICS
UNIT OVERVIEW

I. **Distribution and Logistics**

   A. **Marketing Intermediaries**

   B. **Developing a Channel Strategy**

   C. **Motivating and Avoiding Conflict with Channel Members**

   D. **Changing Channel Arrangements**

   E. **The Important Role of Physical Distribution**

   F. **Components of the Physical Distribution System**

   G. **The PDS Planning Process**

   H. **Managing Physical Distribution**

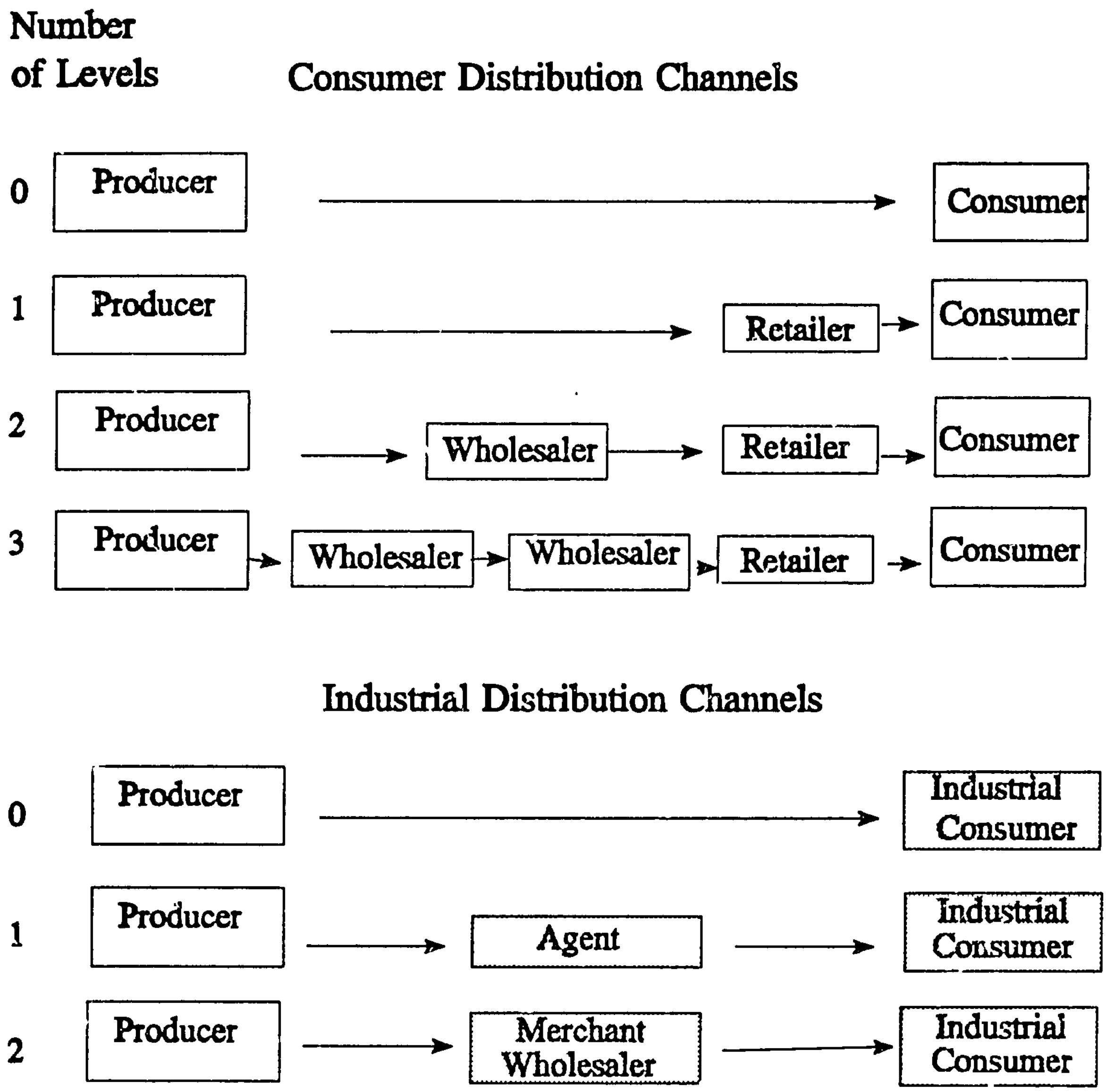
MARKETING INTERMEDIARIES

Firms that help a company to promote, sell, and distribute its goods to final buyers; they include middlemen, physical distribution firms, marketing-service firms, and financial institutions.

CHANNELS OF DISTRIBUTION

A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the final consumer or an industrial user.

POSSIBLE CHANNEL RELATIONSHIPS



A distribution channel is made up of a producer, its customers, and any wholesalers or retailers that take part in getting goods from one to the other. In this diagram, distribution channels are classified by number of intermediaries. A producer that sells directly to consumers uses a zero-level channel; a producer that sells directly to retailers uses a one-level channel; and so on.

Source: Stoner, James A.F., and Edwin W. Dolan, "Chapter 10 Distribution," Introduction to Business (Glenview, Illinois: Scott, Foresman, and Company, 1985), p.239.

FUNCTIONS OF CHANNEL INTERMEDIARIES

information - gathering and disseminating research and intelligence about the market environment.

promotion - developing and spreading persuasive communication about the product offer.

contact - locating and communicating with prospective buyers of the product.

matching - modifying a product offering to better fit the buyer's needs including the activities of grading, assembling, and packaging.

negotiation - reaching an agreement on the terms of the sale so that the transfer to possession can take place.

physical distribution - transporting, storing, and delivering of the goods.

financing - acquiring and using funds to pay for all or some of the costs of distribution.

risk-taking - assuming all or some of the risks associated with performing the functions listed above.

MERCHANTS, AGENTS, FACILITATORS RETAILING, AND WHOLESALING

Merchant

A marketing intermediary that assumes ownership of a good.

Agent

A marketing intermediary who represents buyers and sellers in the distribution channel and may negotiate the sale of a product, but does not assume ownership of the good.

Facilitator

A marketing intermediary who aids in the distribution of a product, but does not act as either a merchant or an agent

Retailing

All activities associated with selling goods or services to final consumers for their personal, non-business use.

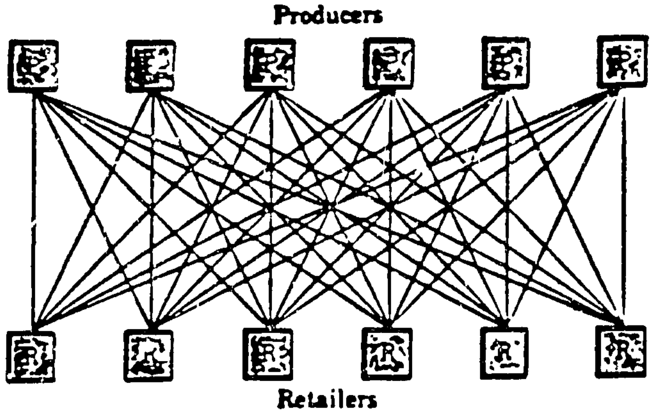
Wholesaling

All activities associated with the selling of goods or services to those buying for the purpose of resale or business use.

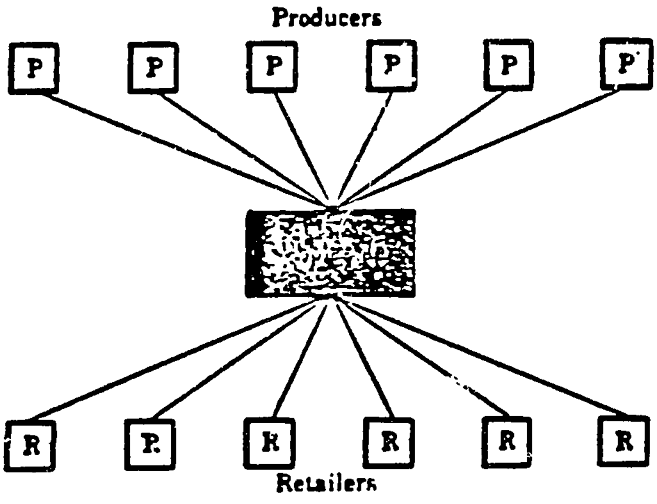
SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991). Reprinted with permission.

ECONOMIES OF DISTRIBUTION

A Without a Wholesaler



B. With a Wholesaler



The main service performed by wholesalers is that of centralizing transactions in cases in which a number of small retailers each carry the products of a number of small producers. These diagrams show the importance of centralization in the case of six retailers, each of which deals with six producers. Without the wholesaler, thirty-six transactions would be needed. The wholesaler reduces the number to twelve.

SOURCE: Stoner, James A.F. and E.W. Dolan, chapter 10 "Distribution," *Introduction to Business* (Glenview, IL: Scott, Foresman & Company, 1985), p. 242.

TYPES OF WHOLESALERS

CLASSIFICATION OF WHOLESALERS	MERCHANT WHOLESALERS	BROKERS AND AGENTS	MANUFACTURERS AND RETAILERS' BRANCHES AND OFFICES
	Full-service wholesalers	Brokers	Sales branches and offices
	Wholesale merchants		
	Industrial distributors	Agents	Purchasing offices
	Limited-service wholesalers		
	Cash-and-carry wholesalers		
	Truck wholesalers		
	Drop shippers		
	Rack jobbers		
	Producers' cooperatives		
	Mail order wholesalers		

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 408. Reprinted with permission.

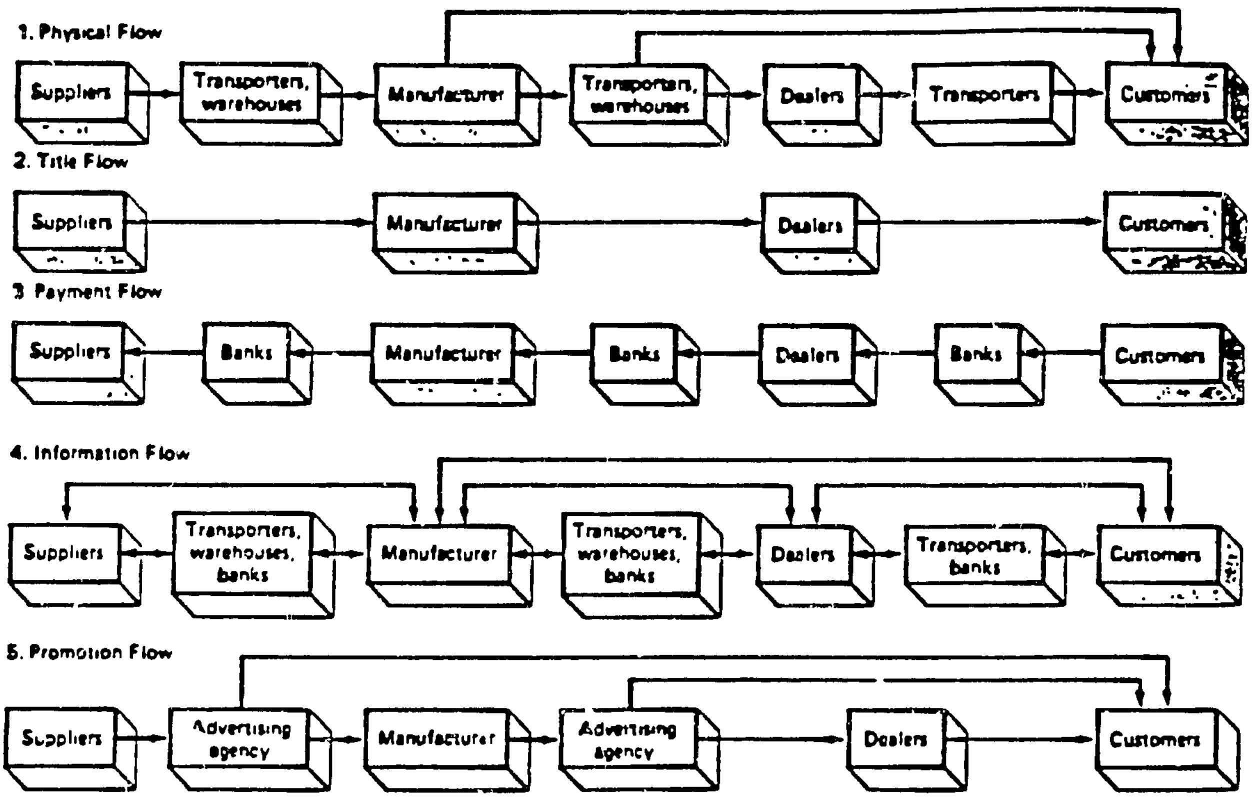
TYPES OF RETAILERS

Different Ways to Classify Retail Outlets	AMOUNT SERVICE	PRODUCT LINE SOLD	RELATIVE PRICE EMPHASIS	CONTROL OF OUTLETS	TYPES OF STORE CLUSTER
	Self-service	Specialty store	Discount store	Corporate chain	Central business district
	Limited service	Department store	Off-price retailers	Voluntary chain and retailer cooperative	Regional shopping center
	Full service	Supermarket	Catalog showroom	Consumer cooperative	Community shopping center
		Convenience store		Franchise organization	Neighborhood shopping center
		Combination store, superstore, and hypermarket		Merchandising conglomerate	
		Service business			

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 389. Reprinted with permission.

FIVE DIFFERENT CHANNEL FLOWS

Five Different Marketing Flows in the Marketing Channel for Forklift Trucks



SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 510. Reprinted with permission.

TP 5-10

DIRECT DISTRIBUTION

A distribution channel that has no intermediary levels in which the manufacturer sells directly to the final consumer.

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991). Reprinted with permission.

TYPES OF CHANNELS

CONVENTIONAL

OWNERSHIP

CONTRACTUAL

ADMINISTERED

CUSTOMER SERVICE

"Providing the right products in the right quantities at the right place at the right time at the right price."

- **lot size**
- **waiting time**
- **spatial convenience**
- **product variety**
- **service backup**

CHANNEL OBJECTIVES

The channel designer must set objectives for he channel in terms of the estimates of desired service levels. Given these objectives, it is them possible to identify, evaluate, and select the appropriate channels and channel members.

IDENTIFYING CHANNEL ALTERNATIVES

The identification of channel alternatives will depend on the desired intensity of distribution, the desired access to final consumers, the prevailing distribution practices, and the functions to be performed by the channel members.

EVALUATION AND SELECTION OF CHANNELS

A firm evaluates and selects a channel alternative on the basis of the degree of channel control desired by the firm, the legal constraints on using a particular channel, the availability of the channel for use, and <u>a thorough revenue-cost analysis of each channel alternative</u>.

SELECTING CHANNEL PARTICIPANTS

A firm selects specific intermediaries by considering an institutions' ability to provide market coverage as well as the requirements (needs), availability, and the specific capabilities of that intermediary.

MOTIVATION OF CHANNEL MEMBERS

The three typical levels of motivating channel members involves cooperation, partnership, or distribution programming.

The choice of motivational technique depends on the amount of control the producer has over the specific channel member and the channel as a whole.

SOURCES OF CONFLICT

Conflict between channel members most frequently occurs because of:

- **Goal Incompatibility**
- **Unclear Roles, Responsibilities, and Rights**
- **Differences in Perception by Different Channel Members**
- **The Impact of Producer's Decisions on Channel Members' Profitability and Success**

CONFLICT MANAGEMENT

Resolving conflict between institutions can involve:

- **The Adoption of Superordinate Goals.**
- **Diplomacy, Mediation, or Arbitration.**
- **Exchanging Individual Employees.**
- **The Cooptation of One Firm into the Decisions and Activities of Another.**

CHANGING CHANNEL ARRANGEMENTS

After carefully evaluating the impact of channel modification on channel revenues and channel costs, a distribution channel can be modified by:

Dropping or adding a specific channel member.

Dropping or adding a particular channel of distribution.

Developing an innovative new way of distributing the product.

BUSINESS LOGISTICS

Business logistics has been defined by Coyle and Bardi (1984) as:

"The systematic and coordinated set of activities required to provide the physical movement and storage of goods (raw materials, parts, finished goods) from vender/supply services through company facilities to the customer (market) and the associated activities--packaging, order processing, etc.--in an efficient manner necessary to enable the organization to contribute to the explicit goals of the company."

COMPONENTS OF THE PHYSICAL DISTRIBUTION SYSTEM

The five functional components of physical distribution are:

- **Transportation**
- **Inventory Management**
- **Warehousing**
- **Order Processing**

MODES OF TRANSPORTATION

- RAIL
- WATER
- TRUCK
- PIPELINE
- AIR

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 562. Reprinted with permission.

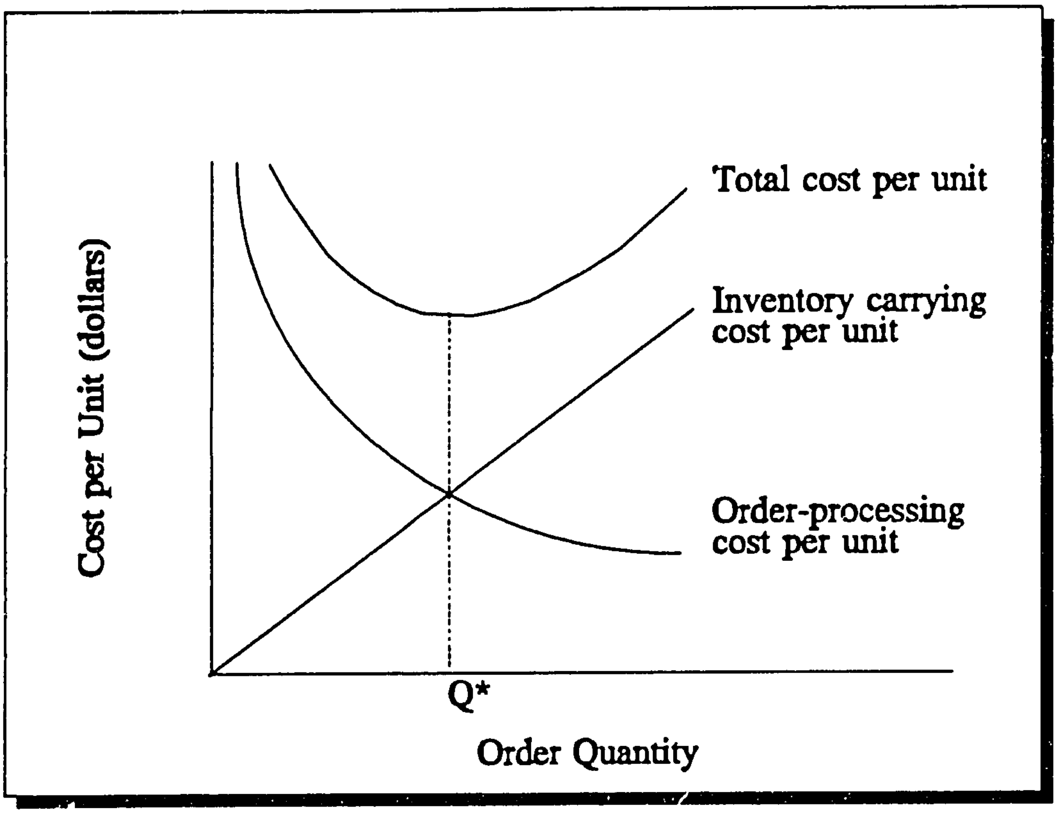
COMPARISON OF TRANSPORTATION MODES

Comparison of Five Major Transportation Modes

	Speed	*Availability*	*Reliability*	*Cost per Unit of Weight*
Rail	Fair	Fair	Good	Low
Truck	Good	Excellent	Very Good	Moderate
Air	Fastest	Good	Good	Highest
Water	Slow	Limited	Fair	Lowest
Pipeline	Slow	Limited	Excellent	Lowest for Liquids and Gases

SOURCE: Stoner, James A.F. and E.W. Dolan, chapter 10 "Distribution," *Introduction to Business* (Glenview, IL: Scott, Foresman & Company, 1985), p. 252.

COST OF INVENTORY



SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 560. Reprinted with permission.

BASIC WAREHOUSING DECISIONS

THE BASIC DECISIONS OF WAREHOUSING INCLUDE:

1. Should public or private warehouses be used?

2. Should there be centralized (few warehouses) or decentralized (many warehouses) warehousing?

3. How big should the warehouses be? Where should they be located?

4. What layout should be used in the warehouse?

5. What items should be stocked in each warehouse?

ORDER PROCESSING

An Example

General Electric operates a computer-oriented system that upon the receipt of a customer's order, checks the customer's credit standing, and whether and where the items are in stock. The computer issues an order to ship, bills the customer, updates the inventory records, sends a production order for new stock, and relays the message back to the sales representative that the customer's order is on its way.

<u>All of this is done in fifteen seconds.</u>

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 559. Reprinted with permission.

THE PHYSICAL DISTRIBUTION SYSTEM PLANNING PROCESS

Establish PDS Objectives

↓

Measure Customer Service

↓

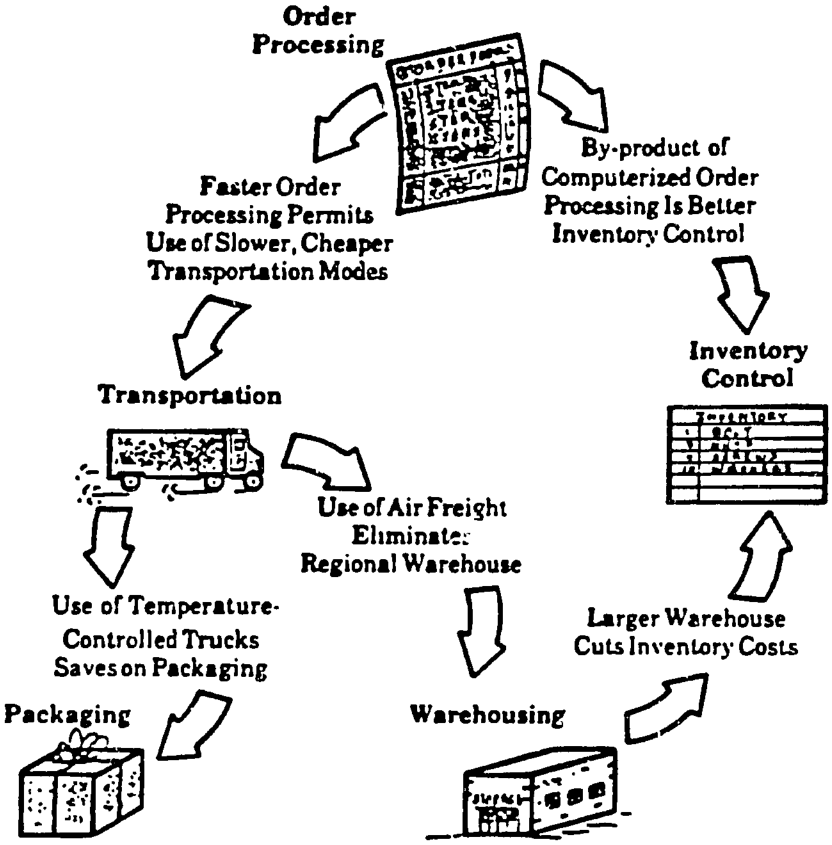
Examine Service-Cost Tradeoffs

↓

Identify and Select from PDS Alternatives

MANAGING PHYSICAL DISTRIBUTION

The Total-Cost Approach to Distribution



The total-cost approach to distribution looks for ways of saving on one aspect of distribution by spending more on another. Some examples are given in this diagram. Distribution costs must also be weighed against other marketing goals, such as customer service and price.

SOURCE: Stoner, James A.F. and E.W. Dolan, chapter 10 "Distribution," *Introduction to Business* (Glenview, IL: Scott, Foresman & Company, 1985), p. 242.

FUNCTIONS OF CHANNEL INTERMEDIARIES

information - gathering and disseminating research and intelligence about the market environment.

promotion - developing and spreading persuasive communication about the product offer.

contact - locating and communicating with prospective buyers of the product.

matching - modifying a product offering to better fit the buyer's needs including the activities of grading, assembling, and packaging.

negotiation - reaching an agreement on the terms of the sale so that the transfer to possession can take place.

physical distribution - transporting, storing, and delivering of the goods.

financing - acquiring and using funds to pay for all or some of the costs of distribution.

risk-taking - assuming all or some of the risks associated with performing the functions listed above.

MARKETING INTERMEDIARIES

Firms that help a company to promote,sell, and distribute its goods to final buyers; they include middlemen, physical distribution firms, marketing-service firms, and financial institutions.

CHANNELS OF DISTRIBUTION

A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the final consumer or an industrial user.

Merchant

A marketing intermediary that assumes ownership of a good.

Agent

A marketing intermediary who represents buyers and sellers in the distribution channel and may negotiate the sale of a product, but does not assume ownership of the good.

Facilitator

A marketing intermediary who aids in the distribution of a product, but does not act as either a merchant or an agent.

Retailing

All activities associated with selling goods or services to final consumers for their personal, non-business use.

Wholesaling

All activities associated with the selling of goods or services to those buying for the purpose of resale or business use.

TYPES OF WHOLESALERS

CLASSIFICATION OF WHOLESALERS

MERCHANT WHOLESALERS	BROKERS AND AGENTS	MANUFACTURERS AND RETAILERS' BRANCHES AND OFFICES
Full-service wholesalers	Brokers	Sales branches and offices
Wholesale merchants		
Industrial distributors	Agents	Purchasing offices
Limited-service wholesalers		
Cash-and-carry wholesalers		
Truck wholesalers		
Drop shippers		
Rack jobbers		
Producers' cooperatives		
Mail order wholesalers		

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 408. Reprinted with permission.

TYPES OF RETAILERS

Different Ways to Classify Retail Outlets	AMOUNT SERVICE	PRODUCT LINE SOLD	RELATIVE PRICE EMPHASIS	CONTROL OF OUTLETS	TYPES OF STORE CLUSTER
	Self-service	Specialty store	Discount store	Corporate chain	Central business district
	Limited service	Department store	Off-price retailers	Voluntary chain and retailer cooperative	Regional shopping center
	Full service	Supermarket	Catalog showroom	Consumer cooperative	Community shopping center
		Convenience store		Franchise organization	Neighborhood shopping center
		Combination store, superstore, and hypermarket		Merchandising conglomerate	
		Service business			

SOURCE: Armstrong and Kotler, "Placing products: Distribution Channels and Physical Distribution" *Principles of Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 389. Reprinted with permission.

CUTTING OUT THE MIDDLEMAN

Luxottica Group

FOR Leonardo Del Vecchio, head of the world's biggest maker of eyeglass frames, 1991 was "the worst year for our company." *Your* company should have it so bad. Luxottica Group SpA of Italy increased sales and earnings about 20 percent. Investors in the company's ADRs saw the stock run up 170 percent, making Del Vecchio's shares worth some $900 million. And Italian authorities revealed that Del Vecchio has become the nation's top wage earner.

Luxottica's secret? Relentlessly cut out the middleman. By eliminating intermediaries in the product and distribution of frames, Luxottica has trimmed costs, raised quality, and increased profits. Over 31 years, the company has evolved from a job shop into a vertically integrated manufacturer, and then into a global distributor. Today it is the world's low-cost producer and controls such fancy--and pricey--eyewear labels as Giorgio Armani, Yves St. laurent, and Byblos. Its 13 percent *net* profit margin is truly eye-popping.

The company focuses on middle- and upper-end frames costing $70 or more, an $11-billion-a-year market. High-priced goggles, costing $170 and up, represent 38 percent of sales, up from zero just five years ago. Will Americans continue to buy $200 fashion frames the way Italians do? Yes, says son Claudio Del Vecchio, who runs the U.S. operation: "They'll buy an Armani frame rather than an Armani suit. That's a definite trend." (Armani wins either way; he owns 2 percent of Luxottica's stock.)

Del Vecchio *padre* isn't your average Italian industrialist. Why, he doesn't even own a soccer team. He prefers his wife's cooking to dining out. (Heck, he even prefers his wife.) When authorities recently revealed the income declarations of citizens for 1989, the latest year available, Del Vecchio led the list with $11 million, more than the likes of Fiat's Gianni Agnelli. The Italian press howled at the ranking, dubbing Del Vecchio "Mr. Nobody." Says he: "I'm very proud to be Mr. Nobody."

After working as a shop apprentice, Del Vecchio got into the optical business on his own as a moldmaker for plastic frames, then as a producer of bridges and other metal parts. A skilled craftsman, he nevertheless realized that when applied to an industry of artisans like frame-making, vertical integration could yield considerable profit. Says he: "For ten years I sold parts. One day I say, 'I'm stupid. I'm sending parts to manufacturers. Why don't I industrialize this?'"

Over the next decade, he did just that. Now his company is perhaps 60 percent more efficient than its nearest rival (Carrera of Austria). Luxottica's ability to make its own tools gives it a three- to six-month lead over competitors. The headquarters of this work is Agordo, a postcard-pretty town in the Dolomite Alps of northern Italy—in other words, in the middle of Nowhere, a perfect spot for Mr. Nobody.

Del Vecchio's second great notion came several years later. As he lowered costs and increased quality, his distributors, not he, were collecting the payoff. That was because the distributors controlled pricing to retailers; they used Luxottica's efficiencies to fatten their own margins. "My heart was crying, to see that," says Del Vecchio. The tears didn't get in the way of his finding a solution. He began buying out distributors and now owns nine out of 12. The company controls two others and has a fifty-fifty partner in Japan.

The newest phase of Luxottica's development is to improve service to its 28,000 customers, primarily small optical shops. What made 1991 such a "bad" year was the competitors cut prices. Rather than follow suit, Luxottica reorganized its U.S. sales staff and started sharing with customers the advantages of computer power. It is equipping retailers with software that checks Luxottica's stock and orders goods for overnight delivery. In the past, delivery took days or weeks.

The frame industry is still fragmented, with three or four large manufacturers and thousands of distributors. Luxottica does half its business in the U.S. but holds only 18 percent to 20 percent of the market; in hypercompetitive Italy, it has 25 percent. By closing the loop between factory and retail floor, Del Vecchio hopes to see his way through to higher market share. **—Bill Saporito**

Fortune Magazine, April 6, 1992.

DESIGNING A CHANNEL CONFIGURATION

CUSTOMER SERVICE

"Providing the right products in the right quantities at the right place at the right time at the right price."

CHANNEL OBJECTIVES

The channel designer must set objectives for the channel in terms of the estimates of desired service levels. Given these objectives, it is them possible to identify, evaluate, and select the appropriate channels and channel members.

IDENTIFYING CHANNEL ALTERNATIVES

The identification of channel alternatives will depend on the desired intensity of distribution, the desired access to final consumers, the prevailing distribution practices, and the functions to be performed by the channel members.

EVALUATION AND SELECTION OF CHANNELS

A firm evaluates and selects a channel alternative on the basis of the degree of channel control desired by the firm, the legal constraints on using a particular channel, the availability of the channel for use, and a thorough revenue-cost analysis of each channel alternative.

SELECTING CHANNEL PARTICIPANTS

A firm selects specific intermediaries by considering an institutions' ability to provide market coverage as well as the requirements (needs), availability, and the specific capabilities of that intermediary.

MOTIVATION OF CHANNEL MEMBERS

The three typical levels of motivating channel members involves cooperation, partnership, or distribution programming.

The choice of motivational technique depends on the amount of control the producer has over the specific channel member and the channel as a whole.

SOURCES OF CONFLICT

Conflict between channel members most frequently occurs because of:

Goal Incompatibility

Unclear Roles, Responsibilities, and Rights

Differences in Perception by Different Channel Members

The Impact of Producer's Decisions on Channel Members' Profitability and Success

CONFLICT MANAGEMENT

Resolving conflict between institutions can involve:

The Adoption of Superordinate Goals.

Diplomacy, Mediation, or Arbitration.

Exchanging Individual Employees.

The Cooptation of One Firm into the Decisions and Activities of Another.

BUSINESS LOGISTICS

Business logistics has been defined by Coyle and Bardi (1984) as:

"The systematic and coordinated set of activities required to provide the physical movement and storage of goods (raw materials, parts, finished goods) from vender/supply services through company facilities to the customer (market) and the associated activities--packaging, order processing, etc.--in an efficient manner necessary to enable the organization to contribute to the explicit goals of the company."

COMPONENTS OF THE PHYSICAL DISTRIBUTION SYSTEM

The five functional components of physical distribution are:

Transportation

Inventory Management

Warehousing

Order Processing

MODES OF TRANSPORTATION

FIVE MAJOR TRANSPORTATION MODES

RAIL. In spite of a shrinking share of total transportation, railroads remain the nation's largest transportation carrier, accounting for 37 percent of total cargo moved. Railroads are one of the most cost-effective modes for shipping carload quantities of bulk products—coal, sand, minerals, farm and forest products—over long land distances. The rate costs for shipping merchandise are quite complex. The lowest rate comes from shipping carload rather than less-than-carload quantities. Manufacturers will attempt to combine shipments to common destinations to take advantage of lower carload rates. Railroads have begun to increase customer-oriented services. They have designed new equipment to handle special categories of merchandise, provided flatcars for carrying truck trailers by rail (piggyback), and provided in-transit services such as goods diversion to other destinations enroute and goods processing enroute.

WATER. A substantial amount of goods move by ships and barges on coastal and inland waterways. Water transportation is low cost for shipping bulky, low-value, nonperishable products such as sand, coal, grain, oil, and metallic ores. On the other hand, water transportation is the slowest transportation mode and is dependent on climatic conditions.

TRUCK. Motor trucks have steadily increased their share of transportation and now account for 25 per cent of total cargo. They account for the largest portion of intracity as opposed to intercity transportation. Trucks are highly flexible in their routing and time schedules. They can move merchandise door to door, saving shippers the need to transfer goods from truck to rail and back again at a loss of time and risk of theft or damage. Trucks are an efficient mode of transportation for short hauls of high-value merchandise. Their rates are competitive with railway rates in many cases, and trucks can usually offer faster service.

PIPELINE. Pipelines are a specialized means of shipping petroleum, coal, and chemicals from sources to markets. Pipeline shipment of petroleum products is less expensive than rail shipment. Most pipelines are used by their owners to ship their own products, although they are technically available for use by any shipper.

AIR. Air carriers transport less than 1 percent of the nation's goods but are becoming more important as a transportation mode. Although air freight rates are considerably higher than rail or truck freight rates, air freight is ideal where speed is essential and/or distant markets have to be reached. Among the most frequently air-freighted products are perishables (e.g., fresh fish, cut flowers) and high-value, low-bulk items (e.g., technical instruments, jewelry). Companies find that air freight reduces their required inventory levels, number of warehouses, and costs of packaging.

A HIGH-TECH Rx FOR PROFITS

Walgreen

HERE'S a trick question: Which retail giant has a name starting with *Wal*, a no-nonsense, middle-America sort of appeal, and 17 straight years of record sales and earnings? Warning: The top man at this company does *not* drive a pickup, hunt birds, or call himself Sam.

The correct answer is *Walgreen*, the largest drugstore chain in the U.S. and one of the longest-running successes in retailing. Recession and debt have cashiered many venerable merchants, but Walgreen, based in Deerfield, Illinois, is flush with cash. It has 1,678 stores in 29 states and Puerto Rico and plans to add 1,300 more by the end of the decade. Says Gary Vineberg, a security analyst at Dean Witter Reynolds: "This is a terrific company, very focused, very well run, and very will financed."

Like Sam Walton's Wal-Mart, Walgreen thrives by paying attention to customers, sticking to a simple business plan, and investing heavily in technology. Ninety-one years after Charles R Walgreen opened his first pharmacy on Chicago' South Side, his company is still building corner drugstores—enlarged, redesigned, and rewired. In a generally low-tech industry, it is leagues ahead of rivals in the use of computers, scanners, and satellites.

Walgreen prospers even though nearly every store in town is crowding in on its business. Most Wal-Marts and Kmarts now have pharmacies, as do many supermarkets. Deep-discount chains, like Phar-Mor and F&M, offer health and beauty products at piteously low prices. Says Chairman and Chief Executive Charles R. (Cork) Walgreen III, grandson of the founder: "Everybody's getting a piece of the pie. We have to be sharp."

What Walgreen may lack in price, it makes up for in convenience. The company picks locations with excruciating care. The typical Walgreens is not scrunched into a megamall at the end of a parking lot the size of Rhode Island. It is a mid-size store on a main street in a big city or suburb. An average customer can buzz into a Walgreens on the way home from work, pick up two or three items (from a selection of about 10,000), spend about $10, and zip out again—all in just over ten minutes.

The major money-spinner at Walgreen is the pharmacy. Sales of prescription drugs have increased at a double-digit clip for 48 consecutive quarters and now account for 38 percent of total revenues. Two big reasons: the aging of America—the average 60-year-old fills twice as many prescriptions per year as the average 30-year-old—and the rapid inflation in drug prices.

But Walgreen's prescription profits are being squeezed, mostly by insurance companies, HMOs, and state Medic-aid programs. These third-party payers, which account for about half of Walgreen's prescription business, now force pharmacies to offer volume discounts. The upshot, says President Daniel Jorndt, who like Cork Walgreen was trained as a pharmacist, is that "we have to be more aggressive in controlling costs."

Fortune Magazine, March 23, 1992.

That means using technology to boost productivity, an area where Walgreen already excels. The company was one of the first drugstore chains to link all its pharmacies electronically to third-part payment plans, eliminating the need for pharmacists and customers to fill out time-consuming claim forms. Walgreen recently completed the installation of bar-code scanners in all its stores. Scanners, while common enough in supermarkets, have not been economical in drugstores, where purchases are small and checkout lines short. Walgreen's scanners, however, are but the first stage of a sophisticated inventory-control system that by the end of 1993 will track demand and automatically reorder supplies.

The company's big investment in technology has a direct impact on customers. intercom, the chain's satellite communication network, ties every pharmacy to a mainframe computer in Des Plaines, Illinois. When Clarence Jones, a Tampa businessman, takes a trip, he knows he can get a refill of his blood pressure medication at any Walgreens in country. How much is service like that worth? Says Jones: "I'm such a loyal Walgreens customer that I won't buy the medicine at the Phar-Mor across the street, even though it's $5 cheaper."

Like many companies, Walgreen took a detour in the 1960s and 1970s when it diversified into restaurants, discount stores, and travel agencies. Having divested all those businesses, it is now fixated on drugstores. That's not to say that the well of ideas has run dry. The company is experimenting with drive-through pharmacies and recently launched a mail-order service to supply chronically ill patients. For Walgreen's corporate pharmacists, the basic principles never change but the formula is constantly being improved. — ***Ronald Henkoff***

THE PHYSICAL DISTRIBUTION SYSTEM PLANNING PROCESS

Establish PDS Objectives

↓

Measure Customer Service

↓

Examine Service-Cost Tradeoffs

↓

Identify and Select from PDS Alternatives

DRIVING FOR THE MARKET'S HEART

Nissan Motor Corp. in U.S.A.

FOR LIVING PROOF that Japanese automakers don't walk on water, look at Nissan. It's No. 2 in Japan, but in the U.S. it trails far behind Honda and Toyota. Since 1985 its American sales of cars and trucks have skidded 30 percent, from 831,000 to 583,000. In March and April, even Mazda sold more cars in the U.S. While its Japanese rivals shine in studies by J.D. Power & Associates, Nissan ranks below average among all 34 brands Power measures in two key studies: initial quality and satisfaction with the car at delivery.

Nissan's slide makes clear that successful selling in a competitive environment requires a great deal more than good products. Enthusiasts and industry pros rank several of its vehicles among the best in their segments. But their individual success has been undermined by a lack of strong products at the core of the model lineup, confusing shifts in marketing and advertising, and rocky dealer relations.

At their U.S. sales base in a nine-story Los Angeles office building—within sight of debris from the recent racial violence—Nissan executives say 1992 will be critical in regaining momentum. They are taking corrective steps in all three major problem areas, but Nissan still faces a tough slog.

Launching three new vehicles will be the first test. The Infiniti J30, a $33,400 sports sedan, arrived at dealerships in March; the Quest, a $22,000 minivan designed and engineered by Nissan but built by Ford in Avon Lake, Ohio, went into production in April. Both are mere hors d'oeuvres for the main course: the stylish Altima, a $17.000 midsize family sedan that goes on sale in the fall, replacing the meat-and-potatoes Stanza.

Nissan aims to sell 110,000 Altimas in the 1993 model year—nearly double projected Stanza sales this year—and to establish it as the line's core product, strengthening Nissan's identity in the marketplace. The Altima goes up against Toyota's hot-selling Camry and Honda's every popular Accord. "It's like trying to break into the lineup against Babe Ruth and Lou Gehrig," says John Schnapp of Boston's Mercer Management Consulting. "You've got to come up with something sensational."

The Altima will be built at Nissan's plant in Smyrna, Tennessee, where a $490 million expansion has just been finished to accommodate it. Manufacturing expert John Krafcik, who coined the term "lean production," calls Smyrna "probably the least space-efficient plant in North America." According to the 1991 J.D. Power study on initial quality, U.S. owners had twice as many problems with subcompact Sentras produced there as they did with Sentra made in Japan. Similar deficiencies would doom the Altima, so Nissan is focusing extra hard on building the cars right.

Nissan's marketing problems go back to 1983 when it dropped the Datsun badge in the U.S. so it could use its corporate name worldwide. After becoming known for economy models, Nissan tried to move upscale by trading on its racy Z cars. Advertising tag lines kept changing: "We are driven" became "The name is Nissan," which begot "Built for the human race."

Fortune Magazine, June 15, 1992

None conveyed a distinctive message.

Now Nissan is reinventing its image again. It wants to be known as a four-door-sedan company, because that's where the volume is. Says Earl Hesterberg, 37, who was made head of the U.S. Nissan division last October: "We haven't been successful in the market where our competitors make their bread and butter. We have to drive traffic into dealers at the middle of the market for the Altima and then let them go up to the Maxima if they choose, or down to the Sentra."

The nationwide service network that helps dealers sell new cars and get them repaired is being reorganized under the direction of Boston Consulting Group experts. More clout has been pushed down to the regional level, where powerful executives called dealer operations managers have been installed to solve problems quickly. Says Thomas Mignanelli, 47, president of Nissan Motor Corp. in U.S.A., who oversees sales and marketing for both the Nissan and Infiniti division: "When a dealer in San Antonio can arrange exactly the mix of cars he wants allocated to him and get an okay for custom-tailored local advertising just by talking with his dealer operations manager, we know we are doing business right."

Because of the soft Japanese economy and U.S. losses, analysts expect Nissan to announce little better than breakeven results for the latest fiscal year. Says Mignanelli, now in his fifth year since joining Nissan from Lincoln-Mercury: "We'll be a lot more successful a year from now." Rising industry sales will help, but Nissan sill needs to be driven—hard. — ***Alex Tayler III***

WHAT SAM WALTON TAUGHT AMERICA

Entrepreneurs

The billionaire boy scout of Bentonville, Arkansas, built an empire on a fervid belief in value, pioneered ideas like empowerment, and revolutionized retailing in the process —*by Bill Saporito*

SAMUEL MOORE WALTON, dead at 74 after a long fight with cancer, did not invent the discount department store, although it hardly seems possible that he didn't. Mr. Sam grabbed hold of the leading edge of retailing in 1962 and never let go, creating a value-powered merchandising machine that seems certain to outlive his memory.

Last year the still-young company earned \$1.6 billion on sales of \$44 billion. A \$1,650 investment in 100 Wal-Mart shares in 1970, when they began trading, is worth \$2.7 million today. Say Bernard Marcus, CEO of the \$5.1-billion-a-year Home Depot chain and a Walton disciple: "He taught American business that the vast amount of American people want value. He saw the future, and he helped make the future, and I don't think retailing is ever going to go back."

While Walton was one of the great showmen of retailing—if he had been a television preacher he'd have become Pope—as a manager he was applying such concepts as a flat organization, empowerment, and gain-sharing long before anyone gave them those names. In the Fifties he was sharing information and profits with all employees. He ingested as much data as he could to get close to the customer and closer to the competition. He stressed flexibility and action over deliberation.

Wal-Mart is ultimately a monument to consumers: It has saved them billions. Walton's perpetual obsession with lowering the cost to consumers forced prices down elsewhere—in department stores, for example. Recalls Kurt Barnard, president of the Retail Marketing Report and a Walton friend: "He always said, 'Nothing happens until a customer walks into a store with a purpose, buys something, and walks out.' That was his philosophy. Satisfy the customers."

How many times have you heard the words "customer driven" in the past five years? Walton long ago wanted manufacturers to see themselves, wholesalers, retailers, and consumers as part of a single customer-focused process rather than as participants in a series of transactions (see Selling). He personally and permanently altered the relationship between manufacturers and retailers, which has historically been, to put it politely, antagonistic. About five years ago he asked Procter & Gamble executives to view a focus group of Wal-Mart executives talking about their prickly relationship with the packaged-goods company. "It was sobering," says John Smale, P&G's retired CEO. "His feeling clearly was that we ought to be able to work together to lower the costs of both the manufacturer and the distributor and get lower costs for consumers."

Walton got both sides to focus on distribution costs and how to cut them. Wal-Mart linked P&G with its computers to allow automatic reordering, thus avoiding bulges in order cycles. With better coor-

Fortune Magazine, May 4, 1992

dination of buying, P&G could plan more consistent manufacturing runs, rationalize distribution, and lower its costs, passing some of the savings on. This systemic approach is now in broad use throughout the industry. Say Smale: "Sam's contribution will turn out to be very significant over the years ahead. He's been described as a visionary, and he clearly was that."

His vision was apparent in 1956 as a Ben Franklin variety store owner. To lure one of his first store managers, Bob Bogle, away from the state health development, Walton showed him the books and offered to pay him 25 percent of the store's net profit in addition to salary. "Sam Walton was honest to the core," says Bogle. In the early years Walton would show his books to just about anyone he thought could help him. Today the company still shares information, right down to single-store results, with the associates—as Wal-Mart calls its employees. Profit sharing, equal to 5 percent to 6 percent of an associate's earnings, extends to the lowest levels. Say Bogle, one of the many people Walton made wealthy: "That profit sharing is the yeast that keeps this thing going."

Once an Army intelligence officer, Walton had an insatiable hunger for information, which in turn equipped Wal-Mart for speedy decision-making. He collected ideas and numbers on his famous yellow pads and converted them to merchandising action using the most rapid means available. At first this was a heavily laden, beat-up Plymouth that Walton would drive—and none too well, say all who knew him—from the Bentonville store to outlying branches.

That demand for information, and its creative use, is just as evident today. Wal-Mart is deep into information systems, and not because Walton loved computers—he didn't. His people insisted on serious crunching ability, and Mr. Pickup Truck listened—another Walton trait—and then signed the check. So, long before its rivals, Wal-Mart had enough computer and satellite capacity to track a space shuttle or towel sales in Tuscaloosa. Walton's memorial service was broadcast to every store over the company's satellite system.

Wal-Mart today converts information to action virtually immediately, a remarkable achievement for a $44-billion-a-year company. Managers suck in information from Monday to Thursday, exchange ideas on Friday and Saturday, and implement decision in the stores on Monday. This bias toward action left a big impression on General Electric CEO Jack Welch. As he said to a 1991 FORTUNE conference: "Everybody there has a passion for an idea, and everyone's ideas count. Hierarchy doesn't matter. They get 80 people in a room and understand how to deal with each other without structure. I have been there three times now. Every time you go to that place in Arkansas, you can fly back to New York without a plane. The place actually vibrates."

Walton often spoke with genuine admiration of his competitors, and with good reason: He knew them intimately and copied their best ideas. No Walton family vacation was complete without lots of visits to competing stores. Says Harry Cunningham, who created Kmart and was forever praised for it by Mr. Sam: "He not only copied our concepts, he strengthened them. Sam just took the ball and ran with it." Walton got to know Sol Price, who created Price Club, and then knocked off the concept brilliantly in Sam's Club.

Walton no doubt would chuckle over being labeled a management guru. Says his son Rob, newly named chairman: "We snickered at writers who viewed Dad as a grand strategist." Adds Sam's friend and partner in a local business venture, George Billingsley, recalling the many occasions Walton was asked to reveal the secret of his success: "Sam would tell a different secret every time."

Indeed, his friends cite Walton's flexibility as one of his most endearing traits. "Change was his middle name," says Billingsley. "He was a terror to travel with. You never knew where you were going next."

Perhaps most remarkable is that the whole package—billionaire, America's No. 1 retailer, fierce competitor—was wrapped in a personality apparently unencumbered by anger. It seems that the only thing Sam Walton ever stayed mad at was quail. "He was an idol of mine. His brain, his heart, his attitude—I felt a great kinship from the very first time I met him," said Herbert Kelleher, the normally ebullient CEO of Southwest Airlines, choking back tears as he stood at the public memorial service at the Bentonville High School football stadium. About a thousand of Sam's friends showed up to say goodbye to a small-town merchant, a Rotary club "Hi, neighbor, tell me about your family" storekeeper who just happened to have 1,700 of them.

THE PROMOTION FUNCTION AND THE PROMOTION MIX

UNIT 6

Title: **THE PROMOTION FUNCTION AND THE PROMOTION MIX**

Purpose: The purpose of this unit is to introduce the participants to the most unique "P" among the four P's in marketing; Promotion. The unit is designed to help participants understand the various tools of promotion in their relationship to present marketing opportunities.

Objectives: Upon completion of this unit, participants will –

- Understand the role of promotion within the marketing function of the firm.
- Be aware of the basic elements that comprise the promotional mix.
- Gain insight into the various marketing situations in which to use the promotional mix elements.
- Be able to analyze promotional situations and devise fundamental promotional strategies as solutions.

Materials:

Transparency 6-1:	General Characteristics of Promotion
Transparency 6-2:	Promotion Communicates to Target Groups
Transparency 6-3:	Elements of the Promotion Mix
Transparency 6-4:	The Optimum Promotion Mix
Transparency 6-5:	Understand Each Element's Strengths
Transparency 6-6:	Customer Goods vs. Industrial Goods
Transparency 6-7:	Large Business vs. Small Business
Transparency 6-8:	Examples of Major Mass Media Promotion
Transparency 6-9	Examples of More Selective Promotion
Transparency 6-10:	Product Lifecycle Concept
Transparency 6-11:	PLC's Are Based On ...
Transparency 6-12:	Introduction Stage
Transparency 6-13:	Introduction Stage: Promotion Considerations with Price
Transparency 6-14:	Growth Stage: Promotion Considerations
Transparency 6-15:	Maturity Stage: Promotion Considerations
Transparency 6-16:	Decline Stage: Promotion Considerations
Transparency 6-17:	Channels of Distribution
Transparency 6-18:	Advertising: Favorable Conditions
Transparency 6-19:	Advertising Message: The AIDA Checklist
Transparency 6-20:	Advertising Media: Questions to Consider
Transparency 6-21:	Basic Media Concepts for Advertising

Transparency 6-22:	Other Concepts to Consider when Choosing Between Media
Transparency 6-23:	Sales Promotions: Two Broad Categories
Transparency 6-24:	Types of Sales Promotions
Transparency 6-25:	Sales Promotion Limitations
Transparency 6-26:	Promotion Incentives and Timing
Transparency 6-27:	Summary of Sales Promotions
Handout 6-1:	The Promotion Continuum for Large and Small Businesses
Handout 6-2:	The PLC Strategies Chart
Handout 6-3:	Promotion Audit
Handout 6-4:	Planning Process for Your Promotional Strategy
Handout 6-5:	How Does Advertising Work?
Handout 6-6:	Radio As a Means of Advertising
Handout 6-7:	Effective Advertising
Handout 6-8:	Where to Advertise
Video Tape 1:	Colgate Palmolive in Thailand

Video Source:

Evans, Joel R. and Barry Berman, Videos in Corporate Marketing. Instructor's Manual, McMillan Publishing Company, New York, 1990.

Estimated Time:

Introduction and Transparencies 1–4: Introduction to Promotions	20 minutes
Transparencies 5–9: Understanding Promotion Situations	35 minutes
Transparencies 10–16: Product Lifecycle and Promotion	30 minutes
Transparencies 17–22: Advertising	30 minutes
Transparencies 23–27: Sales Promotions	30 minutes
Video Tape and Summary	35 minutes

UNIT 6

THE PROMOTION FUNCTION AND THE PROMOTION MIX

CONTENT	PROCESS
A. Overview	
• The purpose of this unit is to introduce the participants to the most unique "P" among the four p's of marketing. The unit is designed to help participants understand the various tools of promotion in their relationship to the marketing opportunity at hand.	
• Upon completion of this unit, participants will...	
1. Understand the role of promotion within the marketing function.	
2. Be introduced to the basic elements that comprise the promotional mix.	
3. Gain insight into the various marketing situations in which to use the promotional mix elements.	
4. Be able to analyze marketing promotion situations and develop fundamental promotional solutions.	
B. General Characteristics of Promotion	
• The term promotion is usually used in a very broad sense and when used that way the term promotion	Show TP 6-1: General Characteristics of Promotion

CONTENT	PROCESS
encompasses all forms of communications which - Originate with the seller. - Are directed to targeted groups and are ultimately related to the profit objective.	
C. Promotion Communicates to Target Groups	
• Promotion is the most unique "P" among the four P's of marketing. The function of promotion is to inform, persuade or remind target groups about one or more of the other P's: The product, price or place.	Show TP 6-2: Promotion Communicates to Target Groups
• It is also a good idea to include the company or the organization as part of the communicated information. The company's image, in the mind of the consumer, can be very important.	
• There is an opportunity for a new or a young business to create and reinforce a positive image for the firm.	
D. Elements of the Promotion Mix	
• Advertising informs and communicates through paid media in which the company or organization has total control over, both message and media choices.	Show TP 6-3: Elements of the Promotion Mix

CONTENT	PROCESS
• Sales Promotion consists of the marketing activities that are used to reinforce other sales efforts in order to make them more effective.	
• Public Relations is the task of developing positive opinions about the company. The most commonly thought of public relations activity is actually categorized as Publicity. Publicity techniques add a dimension of legitimacy that can't be found in advertising. Publicity consists of placing news releases and articles in publications which portray the firm in the best possible image.	Example: Law suits for advertising liquor bring publicity which could be negative or positive for different audiences.
• In addition to the promotion mix as shown, don't forget that personal selling, which is covered in a later unit, is also part of the promotion mix. Also, you should consider whether your facilities are really part of your promotion. For many businesses, the appearance of your facilities, the quality and prominence of exterior signs, the interior design, window displays and even smells can significantly affect customer perceptions of your business and products. Also, merchandising, such as product displays, video presentations, banners, posters and brochures can be a significant promotional component and can be treated as part of the promotional mix.	

CONTENT	PROCESS
E. The Optimum Promotion Mix	
• The optimum mixture of advertising, sales promotion and publicity depend on several factors.	Show TP 6-4: The Optimum Promotion Mix
- The manager must fully understand each element's main strength.	
- An understanding of consumer marketing and industrial marketing is needed.	
- An appreciation between the needs of small businesses and large businesses is also important.	
- The impact of the product life cycle and the product's stage in the PLC.	
- The channels of distribution also affect the type of promotion needed by the manager.	
• We'll now discuss each factor.	
F. Understand Each Element's Strength	
• Advertising creates awareness and can also pave the way for personal selling.	Show TP 6-5: Understand Each Element's Strengths
• Sales promotion is short-term oriented and is primarily used to create an immediate incremental change in sales.	

CONTENT	PROCESS
• Public relations provides a legitimacy that money can't buy. Public relations activities remain to be the most inexpensive communications tool a company or organization can use.	
G. Consumer Goods vs. Industrial Goods (or Markets)	
• Consumer marketing relies heavily on advertising and sales promotion and secondarily (in general) on personal selling. Industrial marketing primarily relies on personal selling rather than advertising.	Show TP 6-6: Consumer Goods vs. Industrial Goods
• Consumer goods, in general, are less complicated sales transactions than that of industrial marketing. Therefore, it is logical that personal selling and advertising have traded positions on the industrial goods graph.	
H. Large Businesses vs. Smaller Businesses.	
• Normally, the customer base of the small business is different as well as the actual product or service offerings. The difference is usually in size (both size of the overall market as well as size of the purchasing unit).	Show TP 6-7: Large Businesses vs. Smaller Businesses
• Geography is usually different, being more local for the smaller business and therefore transactions are somewhat more "Personal" in	Distribute HO 6-1: The Promotion Continuum for large and small businesses.

CONTENT	PROCESS
nature. These issues lead to the more selective techniques of personal selling and sales promotion.	
I. Major Mass Media Promotion Examples	
• Larger business's markets are broader and geographically dispersed enough where the use of a National media makes economic sense, such as Network Television and National Magazines.	Show TP 6-8: Examples of Major Mass Media Promotion
J. More Selective Promotion Examples	
• Supplementary advertising such as direct mail is used to prospect for qualified customers, while personal selling is then used to close the sale.	Show TP 6-9: Examples of More Selective Promotion
• The graph of the promotion continuum attempts to illustrate how the use of mass media and more selective techniques differ by the size of the business. In general, this can be found to be true.	
K. Product Life Cycle	
• The next general factor is the product lifecycle concept, or PLC. What will be covered concerning the PLC are the important aspects AS IT RELATES TO THE PROMOTION MIX.	Show TP 6-10: Product Life Cycle Concept

CONTENT	PROCESS
- Sales potential and profitability will change over time.	
- The PLC attempts to recognize distinct stages in sales history.	
- Each stage represents a different and unique challenge to the seller.	
- Different promotional approaches are required for each stage.	• Distribute HO 6-2: The PLC strategies chart.
L. Basis of PLC's	
• Product Categories possess the longest PLC's. Product forms include, within the category of typewriters, manual typewriters – electric typewriters, etc.	Show TP 6-11: PLC's are Based on:
• Brands possess the shortest PLC's. There are exceptions to the rule: Jello brand gelatin, Ivory soap, etc.	
M. Introduction Stage of the PLC	
• Still referring to Handout 2, the introduction stage offers limited but growing opportunities for marketers. Because the product is new, awareness must be generated and the immediate selling effort must focus on those "most ready to buy."	Show TP 6-12: Introduction Stage

CONTENT	PROCESS
N. Introduction Stage: Promotion Considerations with Price	
• A – Rapid Skimming is used to build up brand preference.	Show TP 6-13: Introduction Stage: Promotion Considerations
• B – Slow Skimming is used when the market is more AWARE than the situation in A.	
• C – Rapid Penetration makes sense when the market is large, unaware and price sensitive.	
• D – Slow Penetration is used when the market is large and IS aware. Additionally, the market is price sensitive and low competition is forecasted.	
O. Growth Stage: Promotion Considerations	
• Most likely marketing communication implication is that the product will evolve to meet the changing needs of the market and/or further differentiate from incoming competition.	Show TP 6-14: Growth Stage: Promotion Considerations
P. Maturity Stage: Promotion Considerations	
• Primary target market customers (that group accountable for approximately 80% or more of sales) and secondary target customers have not been established. The firm must now decide how more sales will be developed.	Show TP 6-15: Maturity Stage: Promotion Considerations

CONTENT	PROCESS
The slide illustrates the various marketing considerations involved.	
• To illustrate one example, a stealing share strategy (a situation where growth in the market is relatively flat and new growth will only come at the expense of competitor's share) translates to a communication task of possibly communicating benefits or an image of the product which the market leader or closest competitor doesn't possess.	
• As another example, a strategy focusing on converting non-users requires educating new customers about the benefits of product usage and enticing them to try the product, possibly through the use of product trials.	
Q. Decline Stage: Promotion Considerations	
• This stage often brings a substantial reduction in the total promotional effort. Advertising is usually cut to the absolute minimum. Salesmen give little effort to the product; publicity is almost impossible to receive because general interest and use of the product has declined. If sales promotion is used at all, it is simply used to offer deals to consumers.	Show TP 6-16: Decline Stage: Promotion Considerations

CONTENT	PROCESS
R. Channels of Distribution: Push vs. Pull Marketing	
• Another area of the marketing mix that affects the promotion mix is the channel of distribution used. Push or Pull methods may be employed.	Show TP 6-17: Channels of Distribution
• **Push strategy** is directed by the firm toward the middlemen, or channel members, who in turn market to the consumer.	
• **Pull strategy** employs the technique of promoting to the consumer directly, who in turn, DEMANDS, the product form the channel–in effect PULLING the product from the channel.	
• Rarely is one technique used exclusively, simply an issue or emphasis.	
S. Advertising: Favorable Conditions	
• Summarize the definition of advertising: Informs and communicates through paid media while the advertiser totally controls the message and the media employed. Advertising can build product, brand or company awareness; help create a positive image; and differentiate from the competition.	Show TP 6-18: Advertising
• In addition to the bullet points on the slide outline, in order to get the most out of the advertising effort it also helps to have	

CONTENT	PROCESS
sufficient funds; to have an emotional appeal tied to the product or service; and to advertise when sales are trending upwardly.	
T. Advertising Message: the AIDA Checklist	
• Message strategy can be distilled to four main points, as illustrated: Get Attention; Arouse Interest; Create Desire; and Get Action.	Show TP 6-19: Advertising Message: The AIDA Checklist
U. Advertising Media: Questions to Consider	
• Advertising media are the carriers or message channels through which the advertising messages reach the target market customers. Media decisions involve the When and Where the advertising message reaches the target audience.	Show TP 6-20: Advertising Media: Questions to Consider Deliver HO 6-3: Promotion Audit and ask their answer to the questions included.
V. Basic media Concepts for Advertising	
• Questions still must be answered by the advertiser. Should the budget be used to purchase a smaller amount of larger print advertising, or should more ad placements of smaller space be used. The concepts of impact, reach, frequency and continuity are the tools used to determine questions such as these.	Show TP 6-21: Basic Media Concepts for Advertising

CONTENT	PROCESS
• Impact combines message and media strategy together. Impact depends on both the message and media working together. • Reach is the total number of unduplicated people to whom your message is delivered. Frequency is the number of times your message is delivered during a given time period. Reach and frequency "Standards" can vary from media to media. • Continuity is the total length of time over which the schedule runs. • For example, a basic Reach and Frequency rule of thumb is that in radio, to achieve the best results, you should reach 65 to 70 percent of the total target radio audience at least 4 or 5 times with the commercial. This repetition is needed to enable the listener to better comprehend the message–since the target audience is not able to go back and review the message as they might in print. • Newspaper logic suggests that only about 15 percent of the audience will read the ad the first time it runs and that future placements of the same ad will amount to only an additional two thirds more exposure rate. Additionally, not all of those exposures will be new readers. Other factors must be considered when debating the overall effectiveness of any advertising technique.	

CONTENT	PROCESS
W. Other Concepts to Consider When Choosing Between Media	
• Lifespan of the Media type.	Show TP 6-22: Others to Consider When Choosing between Media
• Availability of space and time	
• Cost	
• Lack of noise or competing clutter. This applies to all areas of advertising such as Direct Mail and Newspaper advertising. In direct mail, noise or clutter can be in the form of an overabundance of "Junk Mail" being delivered to the individual. This competes for the attention of the target. Newspaper clutter would include all the various material that one would find on the average newspage: other ads, both larger and smaller; editorial copy and headlines; photographs, etc.	
• Flexibility	
• Interest level of the overall audience the advertising placement is being exposed to.	
X. Sales Promotions: Two Broad Categories	
• Sales promotions can help accomplish several promotion mix objectives such as: Stimulate Sales Introduce a new product via a product trial	Show TP 6-23: Sales Promotions: Two Broad Categories

CONTENT	PROCESS
Get new customers Increase frequency of purchase Build customer loyalty	
The two broad categories of sales promotions, consumer promotions and trade promotions, have one major difference beside the target market, Basic Delivery.	
Y. Types of Sales Promotions	
• Not all the tools of sales promotions will be explored. As an example, the slide illustrates four of the most commonly used promotions. The marketer must strive to tactically use the appropriate sales promotion tool within the strategic framework of the firm's sales promotion strategy.	Show TP 6-24: Types of Sales Promotions Show videotape and discuss creative ideas for adding sales promotion to advertising messages.
Z. Limitations of Sales promotions	
• Promotions may affect the image of the product, brand or company.	Show TP 6-25: Sales Promotion Limitations
• Promotions may actually only be borrowing from future sales rather than creating new sales.	Rebates promoted by U.S. car manufacturers are an excellent example of this effect.
• May invite competitive retaliation.	
• Used too often, the promotion may become expected rather than the exceptional event.	

CONTENT	PROCESS
AA. Incentives and Timing	
• The promotion incentive must be a basic reward for the consumer. The promotion also should be devised to affect the target market's behavior and therefore stimulate demand.	Show TP 6-26: Promotion Incentives and Timing
• The marketer does not want to attract only the "promotion-minded" segment of the market with the program. Must produce an incentive that is strong enough and broad in scope to move the entire market.	
• The incentive and the timing of the delivery of the incentive to the consumer influence the overall success of the promotion program.	Show TP 6-27: Summary of Sales Promotions Provide participants with HO 6-4; 6-5; 6-6; 6-7; and 6-8 for later reading.

GENERAL CHARACTERISTICS OF PROMOTION

- Originates with the Seller
- Directed to targeted Groups
- Ultimately Related to the Profit Objective

PROMOTION COMMUNICATES TO TARGET GROUPS

- The Right Product is Available
- At the Right Place
- For the Right Price
- From the Right People

ELEMENTS OF THE PROMOTION MIX

- Paid Advertising
- Sales Promotions
- Public Relations & Publicity
- Personal Selling
- Merchandising
- Facilities Use/Signage

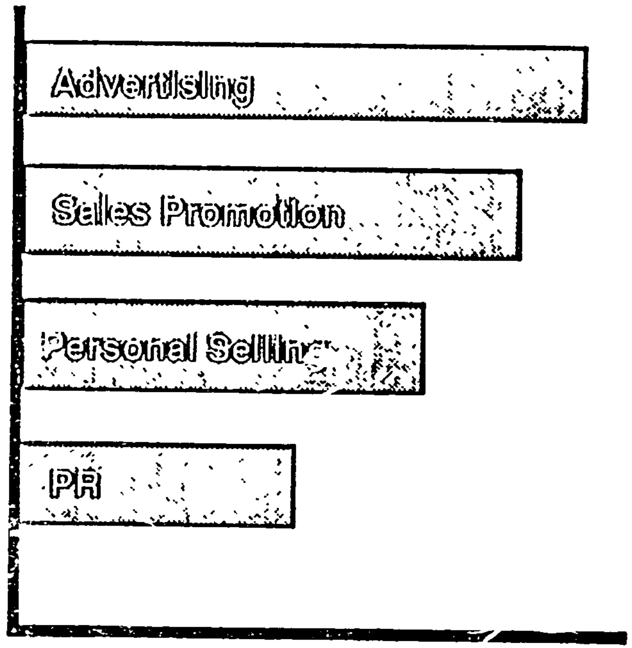
THE OPTIMUM PROMOTION MIX

- Understand Each Element's Strength
- Consumer vs. Industrial Marketing
- Large Business vs. Smaller Businesses
- Stage in the Product Life Cycle
- Channels of Distribution

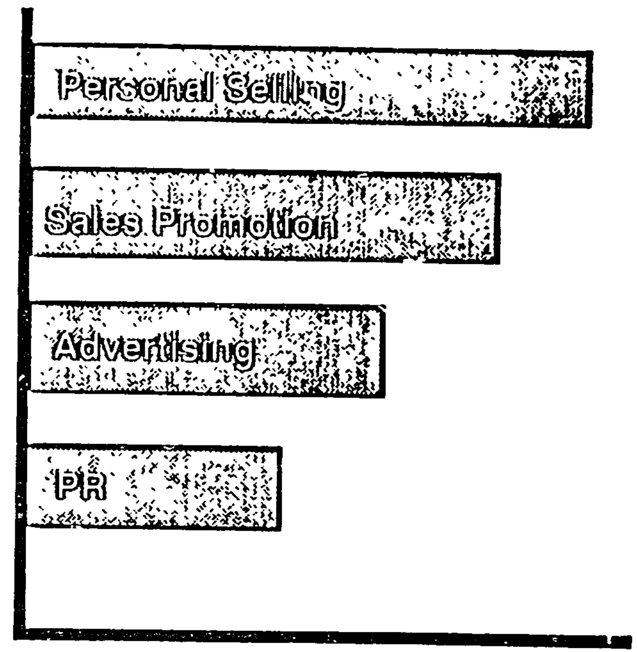
UNDERSTAND EACH ELEMENT'S STRENGTHS

- Advertising
  - **Creates Awareness**
- Sales Promotion
  - **Short-term Oriented**
- Public Relations
  - **Provides Legitimacy**

CONSUMER GOODS vs. INDUSTRIAL GOODS



Relative Importance
for
Consumer Goods



Relative Importance
for
Industrial Goods

TP 6-6

LARGE BUSINESSES vs. SMALLER BUSINESSES

- Larger Businesses rely more on Mass Media Advertising

- Smaller Businesses must rely more on Selective Promotion

EXAMPLES OF MAJOR MASS MEDIA PROMOTION

- Network Television
- Magazines
- Large City Newspapers
- Local Television
- Public Relations

EXAMPLES OF MORE SELECTIVE PROMOTION

- Personal Selling
- Sales Promotion
- Supplementary Advertising
  - **Direct Mail**
  - **Specialty Advertising**
  - **Packaging**

PRODUCT LIFECYCLE CONCEPT

- Sales Potential and Profitability will Change Over Time

- An Attempt to Recognize Distinct Stages in Sales History

- Each Stage Represent a Different Challenge to the Seller

- Different Approaches are Required Within Each Stage

PLC'S ARE BASED ON ...

- Product Categories
- Product Forms
- Brands

INTRODUCTION STAGE

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- Focus the Selling Effort on Those "Most Ready to Buy"
- Prices Tend to Be Higher
- Can Be Shorter if:
  - **Consumers Have Interest and Adopt**
  - **New Channels Do Not Have to Be Created**

INTRODUCTION STAGE:
Promotion Considerations

		PROMOTION	
		HIGH	LOW
PRICE	HIGH	A Rapid Skimming	B Slow Skimming
	LOW	C Rapid Penetration Strategy	D Slow Penetration Strategy

GROWTH STAGE:
Promotion Considerations

- Improvement of Quality and Additions of Product Features and Models
- Begin Entering New Segments and Distribution Channels
- Price may Lower to Catch the Next Level of Sensitivity

MATURITY STAGE:
Promotion Considerations

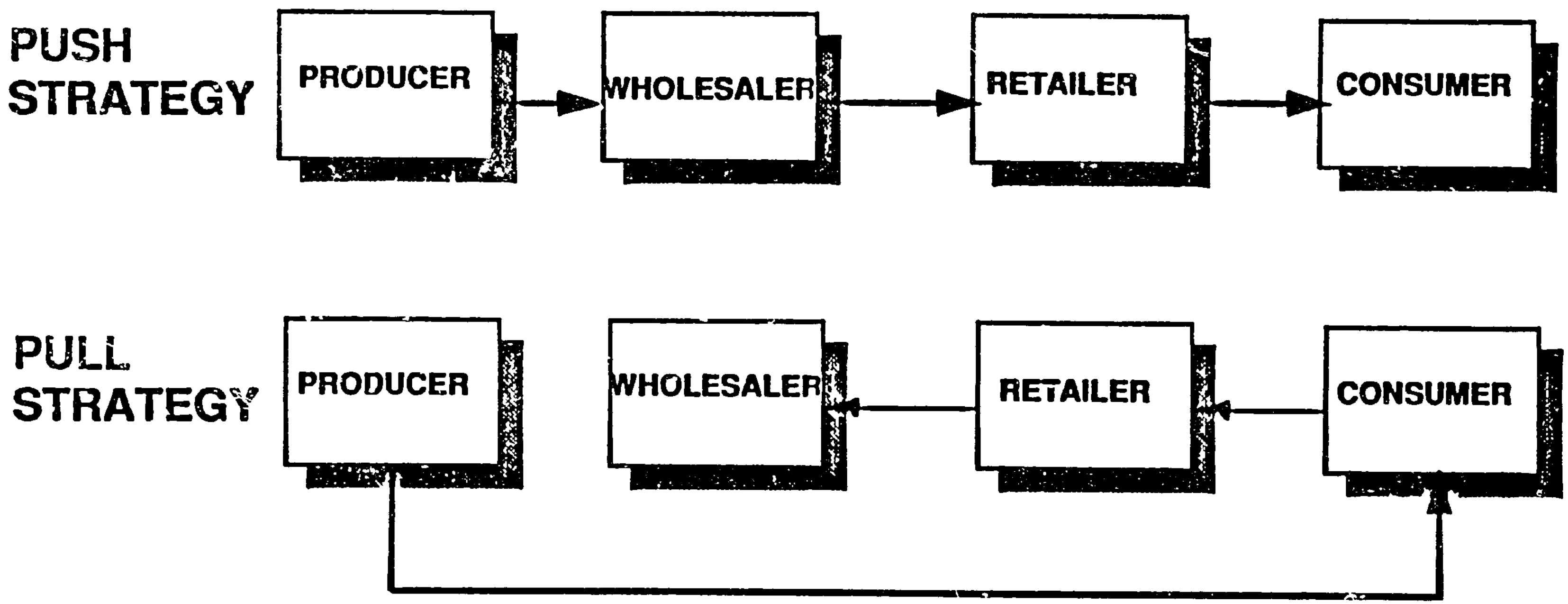
- Focus on Selling More to Penetrated Market
  - **More Use**
  - **More Usage per Occasion**
- Focus on Converting Non-users
- Continue to Enter New Segments
- Sales Strategy of Stealing Market Share

DECLINE STAGE:
Promotion Considerations

- Develop New Uses for the Product
- Establish New Distribution Outlets
- Reposition Consumer's Perception of Product
- Develop Major Product Improvement

CHANNELS OF DISTRIBUTION

PUSH VS. PULL



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TP 6-17

ADVERTISING

FAVORABLE CONDITIONS

- A Good Product
- A Significant Differential
- Possess a Trademark
- Impersonal Sales Effort
- Price is Reasonable
- Quality is Managed and Maintained

ADVERTISING MESSAGE:

The AIDA Checklist

A	Get Attention
I	Arouse Interest
D	Create Desire
A	Get Action

ADVERTISING MEDIA
Questions to Consider

- How Much Money is Available
- Competition's Advertising Media
- What Media are Available
- Size of the Market Area
- Nature of the Advertising Message
- Promotion Objectives for Advertising to Achieve

BASIC MEDIA CONCEPTS FOR ADVERTISING

- Impact: Message and Media Combined
- Reach: Total People Message Delivered to
- Frequency: The Total Number of Times Delivered
- Continuity: Total Length of Time Message Runs

OTHER CONCEPTS TO CONSIDER WHEN CHOOSING BETWEEN MEDIA

- Life Span of the Media Type
- Availability of Space and Time
- Cost
- Lack of Noise or Clutter
- Flexibility
- Interest Level of Audience

SALES PROMOTIONS
Two Broad Categories

- Consumer Promotions
  - Use of Mass Media Delivery
  - In-Store Device Delivery
- Trade Promotions
  - Direct Mail Delivery
  - Trade Publications Delivery
  - Sales Force Delivery

TYPES OF SALES PROMOTIONS

- Coupons and Rebates
- Price-off/Sales
- Sweepstakes and Games
- Samples of Products

SALES PROMOTION LIMITATIONS

- May Affect the Image of the Product, Brand or Company
- May Borrow from Future Sales Rather than Generate New Sales
- May Invite Competitive Retaliation
- Too Frequent Use may make it Expected Rather than the Exception

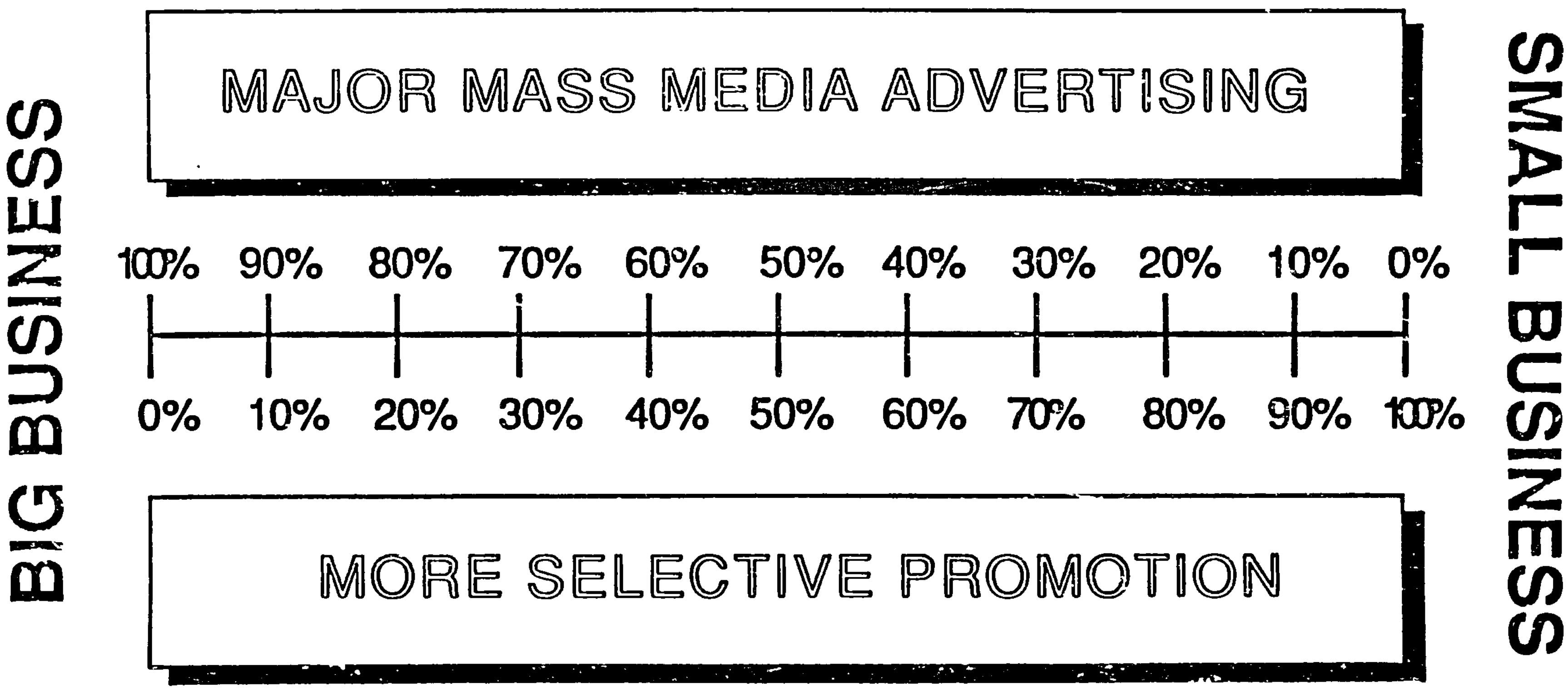
PROMOTION INCENTIVES AND TIMING

- 4 Basic Promotion Incentives
  - **Price**
  - **Product**
  - **Merchandise**
  - **An Experience**
  -
- 3 Timing Elements
  - **Immediate**
  - **Delayed**
  - **Chance**
  -

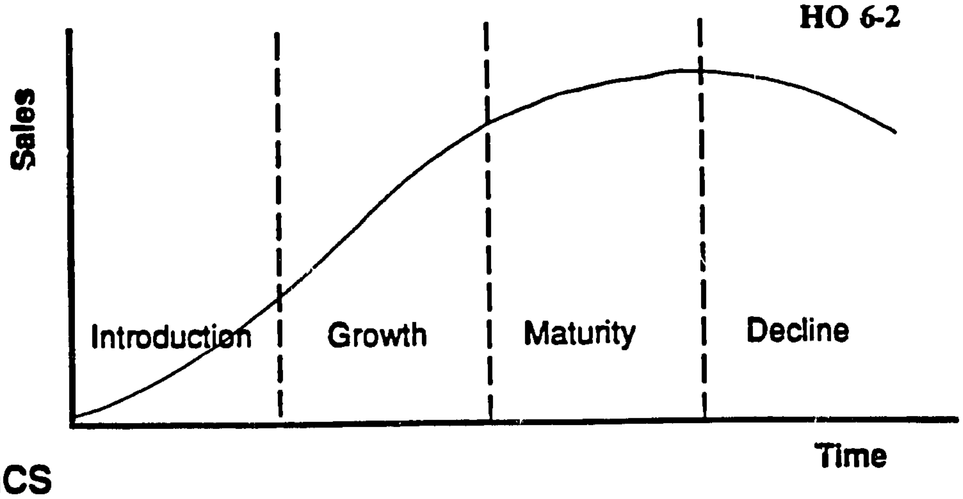
SUMMARY OF SALES PROMOTIONS

- Powerfull but can be Expensive
- Must Possess Broad Target Appeal
- Must Include a Strong Promotional Incentive
- Must Possess Minimum Restrictions for Participation

THE PROMOTIONAL MIX CONTINUUM



HO 6-1



CHARACTERISTICS

Sales	Low	Rapidly Rising	Peak	Declining
Customers	Innovators	Early Adopters	Middle Majority	Laggards
Competitors	Few	Growing	Stable but Declining	Declining

MARKETING OBJECTIVES

	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and either milk brand or reposition

STRATEGIES

Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in mass market	Stress Brand or product difference and benefits	Reduce to level needed to retain loyal users
Sales Promotion	Heavy use to entice trial	Reduce: take advantage of consumer demand	Increase to encourage brand switching	Reduce to minimal level

Promotion Audit

By: ______________________ Date: ______________________

Do you:	Yes	No
Know where new business is coming from?	____	____
Keep track of referrals and thank the sources?	____	____
Track advertising and direct mail responses?	____	____
Spend advertising dollars in proportion to your product mix?	____	____
Project a strong, consistent image in all materials, signage, stationery, and so forth?	____	____
Have a professionally designed logo?	____	____
Sell benefits to customers in all promotional material?	____	____
Know what has worked, what has not worked, and why?	____	____
Have a yearly advertising, public relations, and promotion plan?	____	____
Involve your entire staff in the promotional process?	____	____
Advertise to your staff as well as to your markets?	____	____
Have strong relationships with media people and advertising professionals in your community?	____	____
Assign one person to make sure your plan is implemented?	____	____
Have a professionally designed "facilities brochure" which explains who and what your business is?	____	____
Follow up promotional efforts with one-on-one selling (if appropriate)?	____	____
Have professional window and point-of-purchase displays?	____	____
Analyze your probable competition in connection with the direct and indirect sales promotional methods you plan to use?	____	____

For any "no" answer, you have another reason to use a professional advertising/public relations/ promotion agency.

SOURCE: Bangs, David H., Jr. *The Market Planning Guide*, Chapter 7, pp. 144-146.

Advertising Base

A successful promotional campaign requires answers to these questions.

1. *Who?* Who are your customers and prospects? You have already segmented your markets, so you can describe whom the promotion is aimed at.

2. *Why?* What are you trying to accomplish? Increase sales? Introduce a new product? Retain or increase market share? Create or maintain an image?

3. *When?* Timing in advertising is all-important. The best promotion will bomb if the timing is off.

4. *What?* What specific products or services are you trying to move? What is their unique selling proposition?

5. *Where?* What media would be best for your campaign?

6. *How?* Leave this one to your advertising agency. You have enough to do running your business. You have to review and approve the campaign.

Advertising/Promotional Questions

Ask and answer these questions:

1. Markets:
   What is your market mix?
   What percentage of your business comes from:
      Individuals?
      Small businesses?
      Big businesses?
      Local trade?
      Regional trade?
      National or international trade?
   What is the market potential?

2. Products/Services:
   Are they:
      Innovative?
      Specialized?
      Diversified?
      Commodity?
      Packaged?
      Tailor-made or customized?
   (Answer "how" to each "yes" answer.)

3. Image:
   Would you describe your business as:
      Formal?
      Informal?
      With a community focus?
      With a regional or national focus?
      Aggressive?
      Relaxed or laid-back?
      Sophisticated?

continued on next page

Advertising/Promotional Questions (*continued from previous page*)

"Down-home"?
Specialized?
General in outlook?
Does this description fit the way you want to be perceived as well as the way you see yourself now? Or do you want to change your company's image?

4. Business strengths:
   What special expertise or experience do you have?
   Does your business offer:
      Longevity in the community?
      Convenient location?
      Outstanding service reputation?
      Other benefits? (specify)

5. Competition:
   How do you stack up against your competition's:
      Market share?
      Image?

6. Customer base:
   Do you sell:
      Many products and services to a few loyal customers?
      Several products to a narrowly defined industry?
      Single products to a diverse client base?

   Do you have a data base to tell you:
      The product mix for each customer?
      Where their business came from? (referral, advertising, etc.)
      The basic demographics of your markets?

PLANING PROCESS FOR YOUR PROMOTIONAL STRATEGIES

by *Maciej Rydel BUSINESSMAN MAGAZINE* (Polish edition)

Everyday practice of business life shows us examples which prove that Polish manufacturers and tradesmen are not prepared to work in a new reality created by free market econmy. It is not to be wondered that after 40 years of central governed economy, businessmen with warehouses filld with full of goods and facing slow-down sales may think that the only way to change the situation is to introduce a new price policy, to break the production and send employees on vacation. A few of them may come up with an idea to develop advertising compaigne of their products to improv their business. Such a new approach is represented by new businesses. Working as a marketing consultant I am asked to evaluate a quality of advertising message or to choose the best T.V. advertisement. I observe that a lot of efforts are put on the technical - artistic part of the presented advertisement. The best television ad will never serve its purpose if it does not represent the strategy of the company. You can easily imagine a wonderful poster which catches our attention but may ruin the image of the company.

It is advised to learn and use proved methods and experiences which had already been worked in practice.

I would recommend the following approach: *before selecting media of your advertising compaign, determine its target and strategy.*

Once, I was presented a T.V. advertisement promoting services offered by a construction company. The director of the company was very excited about doing it but he forgotten that such an advertisement has value not of its picture but purpose.

Thinking about advertisement and its media we are to use, we have to start with defining market segmentation and your company strategy.

Advertising is not the only way to promote your company, products or services. Some forms of promotion make customers aware of the existance of a product, service or company. But, people have to e familiar with the benefits of products and services. To communicate the proper message you may use such promotional methods as personal selling, advertising and sales promotion and publicity.

Your target market is affected by: product, packaging, price, terms of payment and distribution channels.

The process of taking a promotional decision consists of the following steps:

BUSINESS GOALS

BUSINESS STRATEGY

PROMOTION OBJECTIVES

PROMOTION DECISIONS

TYPES FORMS MEANS ORGANIZATION EXPENSES

Consider determing the target of your promotional strategy, for instance:

- introducing a new product into particular segment market,
- changing customers' perception of our products attributes,
- maintaining the customers top-of-mind awareness about product,
- being visible on a competitive market,
- informing customers about product's benefits

Having defined short and long-term goals we are ready to describe a set of ways how to reach them - our strategy. The strategy of promotion is the most effective way of reaching the goals.

The most favorable methods include four basic conditions:

1. market environment - e.g. the number of potential customers and competitors, law regulations and barriers, costs of promotion, distribution channels of promotion;

2. customers desires and needs, their expectations as to promotional information, his their opinion about our advertising campaign;

3. "image" of our company on the target market, its competitiveness, financial and organizational opportunities in terms of developing promotional campaign;

4. competitors and their promotional methods; what promotion strategies do they use?, what "image" do they want to create?, what advertising media do they plan to use?

Being aware of these issues through conducting marketing researches (as the market is changeable we need to do it frequently) we are prepared to formulate our promotional strategy. Our question is: *WHAT BENEFITS DO WE OFFER OUR POTENTIAL CUSTOMERS,* how the benefits vary us from competitors, what makes us be better?

It leads us to the very basic question: what do we want to sell? Of course, neither goods nor services. Customer expects to buy solutions to his problems and satisfaction for his wants and needs. A producer who is selling only cars on a market that is full, is planing his failure. Customers do not buy a new-brand car but benefits of existing, proved cars.
They buy:

- imitation of others,
- comfort,
- self expression,
- convenience etc.

Promotional strategy has to determine very clear our product/service to whom is aimed to. A powerful form of market segmentation is to classify buyers according to the different benefits that they seek from the product. What Americans call "benefit segmentation".

For example: *Valve* company secures safety, *BOW* - professional perfection and individuality, *LANCE* - sport elegance and *JAGUAR* - prestige. Each car of these companies is sold on a specific segment market related to economic, demographic and psychographic criteria.

You need to decide if you want to promote your company, brand, or product?

Market segmentation strategies will enable you to take the next step - selecting advertising media.

We need to decide first of all what we are promoting - the product, the brand or our company. If our product is unbranded we may concentrate our promotion on public relation or corporate advertising. In personal selling we need to convince potential customers about the reliability of our company. We still need to know customers behavior, needs and wants. We must know if customers prefer purchasing powder soup to "Winiary soup, when buying TV set consider its technical features or its brand name - *SONY* marked in the front, when customers buy alcohol - buy prestige of its place of manufacturing: cognac, scotch whisky, Rein wine etc.

Our next step is to select the advertising media. There are eight available media types:

1. NEWSPAPERS ADVERTISING

- advertisement
- an advertising article

2. TELEVISION AND FILM ADVERTISING

- commercial production
- program interruptions
- shopping guides
- film promotion

3. RADIO ADVERTISING

- commercials
- adverıising program

4. OUTDOOR ADVERTISING

- billboards
- poster panels
- painted bulletins
- transit advertising (interior and exterior displays)
- neon signs, sign-boards, banners
- station posters
- spectaculars

5. PUBLICATIONS

- brochures, folders, fliers
- calendars,
- business stationery,
- posters
- handbills, reference list

6. TRADE SHOWS ADVERTISING

- counter and window displays
- maps, tables
- exhibits, shows, tasting
- models, samples

7. DIRECT MAIL ADVERTISING

- advertising mail list
- direct mail invitations

- samples, gifts sent by mail

8. SPECIALTY ADVERTISING

- imprinted advertising specialties (pens, pencils, key chains, wallets, lighters)
- executive gifts

Using selected advertising media you need to remember about using so called "complex identity" to reach simple and compact layout of the advertisement. A good advertisement includes such features as:

- it is visible; catching customers attention
- disseminates facts about the firm or product, what distinguish it from others
- it is easy to understand and remember
- develops customers'wants to buy it.

To meet these requirements an adviser needs to develop product strategy through using the language of advertising. :

- brand names and trademarks
- color
- graphic symbol (e.g. a sailor for *"Baltona"* Company, an gnawed apple for *"Apple"*
- commercial slogan
- layout

Selecting these features for your product will help you to be both visible and competitive on the market. For example, *Coca-Cola* can be purchased only in bottles of the same shape, and its distinctive color is red, *KLM* sells its products in blue color and *LUFTHANSA* has used the same layout for many years.

Looking at Polish products it is clear that our companies ignore the rules. Some of them do not use any kind of elements recognize as indispansible in adverising process. It happens very often that a brand name does meet market needs (e.g. Transportation and Road Equipment Company or Department Cooperative "*Jednosć*"). The lack of brand names, symbols, special layouts give you the kind of feeling that they do not care about you as a potential customer, even try to hide on a multi-branch market.

Most common mistakes made by Polish firms are: frequent changing their names, overdone advertising movies. Lots of advertisers tend to communicate too much information in one advertising message what made it to be overlooked.

Another advertising rule is *do not expect prompt results of your advertisement*. Of course, it depends on what kind of product, service you advertise. For example: if a company announces a cars sale it may expect that only some potential buyers will come. But, what if a company announces computers and satellite equipment sale - it may bring 10 potential customers wiling to buy the products next day.

The major goal of newspapers advertising should not be focused on a single present sale but on long-term sales. Our advertising campaign should teach customers about our product, and make them aware that when they buy it they will fulfill their needs.

Newspapers advertising needs to be planned to reach our short and long-term goals of our business.

Before finding an idea of your advertising slogan try to answer several questions:

a/ What is your company strategy - and its result of a promotional strategy?

b/ What are your target market segments?

c/ What is your audience?

d/ What kind of needs and wants may your products meet? - what ar your customers needs?

e/ What benefits do you offer customers and the market environment?

f/ What distinguishes you from the competitors?

g/ What advertising approaches do your competitors take?

h/ What are the strengths of your product and what is the advantage on your hand?

i/ What strategies have you implemented so far and which of them were worth continuing?

j/ What is your position on the market?

k/ What obstacles do you find in developing your promotional methods in terms of law regulations on the target market and in your own company?

l/ Remember that advertising needs also investment. It is like indirect investing in the market from which you live on.

ADVERTISING STRATEGIES

SELECTED MARKET SEGMENT	OBJECTIVES	CONTENTS	FORM	MEDIA - MIX	TIMING
• CUSTOMERS/ CONSUMERS	• TAKE COMPETITORS' CUSTOMERS	• UNIQUE SELLING PROPOSITION	• PERSUASIVE	• TV	• CONCENTRATION
• LEADERS OF OPINION	• INCREASE FREQUENCY OF THE PRODUCT USAGE	• IMAGE	• SENSITIVE	• RADIO	• PERMANENT
• OTHERS	• CATCH NEW BUYERS	• POSITIONING	• RATIONAL	• NEWSPAPERS	• PULSATORY
	• KEEP OLD CUSTOMERS	• REASONS FOR PURCHASING	• OUT-DOOR	• MAGAZINES	
		• OTHER		• MAIL	

ADVERTISING

by Maciej Rydel

- o VISIBLE, CATCHING POTENTIAL CUSTOMERS' ATTENTION

- o PROMOTES OUR BRAND TRADE/COMPANY CUSTOMERS DISTINGUISH OUR PRODUCTS FROM COMPETITORS'ONES

- o EASY TO REMEMBER

- o ATTRACTS CUSTOMERS AND MAKES THEM PURCHASE IT

SEGUENCE OF PERCEIVING ELEMENTS OF PRESS ADVERTISEMENT

1. PICTURE
2. HEADING
3. LOGO + SLOGAN
4. eventually CONTEXT

BEFORE YOU SPEND YOUR NEXT MILLION
by Jacek Kall BUSINESSMAN MAGAZINE (Polish edition)

How does an advertisement work?

Measuring effectiveness of advertisement in terms of it influence on customers behavior, several approaches have already been developed. There is a number of models presenting effects of advertisements but my intention is to show the simplest one known as ATR formula. *ATR* stands for

ATTENTION TRYING REINFORCEMENT

The crucial point of the advertisement is to attract first of all the fist buyers, enhance them to buy the product and develop their needs. Of course, such activity will meet some obstacles. An advertisement of a new product reaches new customers very slowly (sciences call it selective perception). That is the reason why such an advertisement should appeal them. Also, it needs appropriate strategy to reach the customers' attention. Potential customers find information about new products through advertisement, window exhibitions, talking with friends, "testing" a new product. The advertising process should lead the client to make the decision to buy the product in order to try it with the conviction that it will meet his needs. If he is satisfied with the new product the advertisement will enforces his positive experience. Each of us (especially it relates to expensive ones) need a confirmation that we made the best choice we could. Our client expects such a confirmation from his friends in a form of a loud exclamation, enthusiastic congratulating on making such a choice (scientists call it "reinforcement stage"). There was a research made among buyers of FORD's cars which proved that customers who bought a FORD car started to pay their attention to advertisements of the car after that fact. This is one of the arguments against advertisement cut budgeting in terms of products of a great interest.

During the "reinforcement" stage an advertisement plays a very crucial role because customers who are satisfied with our product become a "living" advertisement of new products by saying "I have bought a T.V. set X made, and I am very satisfied with it, do the same what

I have done and your satisfaction is guarantee.

An advertisement is effective if it is conducted for a longer period of time and its results are measured from a farther perspective. An advertisement helps to create "a strong position" on a competitive market which helps the sellers demand higher prices. Such companies like Sony, Mercedes, Bayer, Kodak, Malboro have usually higher prices than their competitors. Why? Because they offer products of the best quality, supported by very effective advertisement. Their products are recognized by the customers for their innovation features.

Avertising activities affect not only potential customers but also agents. It is believed that advertised product is of the best quality. If you conduct an advertising campaign it means you believe in your product. If yes, it might be a profitable business to sell your products because there is demand for your products. Good advertising campaign has also influence on competitors. For example, an advertising campaign of KODAK products on the Polish market increased requirements from its competitors. And the result is that KODAK's products are on the top. FUDJI products are of the same quality and even less expensive but still has less customers then the American company.

You may reach everything through conducting a good advertising campaign in professional way and meeting some conditions. You have to know:

1. What do you want to reach through advertisement?

2. Who is your customer?

3. What do you want to offer?

4. What product image do you intend to create?

HOW DOES THE ADVERTISEMENT WORK?

ATTENTION

INTEREST

DESIRE

ACTION

SELLING AND SALES MANAGEMENT

- 400

UNIT 7

Title: **SELLING AND SALES MANAGEMENT**

Purpose: This unit is designed to help participants understand the principles involved in establishing the promotional mix and in establishing either an inside or outside sales force.

Objectives: Upon completion of this unit, participants will:

- understand promotional mix options
- have a better understanding of the personal selling process
- be able to identify skills and personal characteristics which are critical for successful sales performance
- be able to establish and manage a sales force

Materials:

Transparency 7-1:	Deciding on the Promotion Mix
Transparency 7-2:	Promotion Mix: Type of Product
Transparency 7-3:	Promotion Mix: Type of Business and Product
Transparency 7-4:	Promotional Mix: Type of Business, Product, Buyer Stage
Transparency 7-5:	Sales and Advertising Expenditures
Transparency 7-6a:	Sales Force Objectives
Transparency 7-6b:	Preferred and Non-Preferred Openings
Transparency 7-7:	Questions
Transparency 7-8:	Guidelines on How to Ask Questions
Transparency 7-9:	Types of Closing Techniques
Transparency 7-10:	Spotting Closing Cues—Physical Cues
Transparency 7-11:	Spotting Closing Cues—Verbal Cues
Transparency 7-12:	Selected Reasons that Retail Sales are Lost
Transparency 7-13:	Personal Characteristics of Successful Sales People
Transparency 7-13a:	Basic Sales Force Structure
Transparency 7-13b:	Sales Force Size
Transparency 7-13c:	Build Up Method of Territorial Design
Transparency 7-14:	Breakdown Method of Territorial Design
Transparency 7-15:	Managing the Sales Force
Transparency 7-16:	Categories of Qualification Characteristics
Transparency 7-17:	Setting Qualifications Standards
Transparency 7-18:	Recruiting Objective

Transparency 7-19:	Selection Process
Transparency 7-20:	Selection Process (continued)
Transparency 7-21:	Training
Transparency 7-22:	Determinants of Sales Performance
Transparency 7-23:	Sales People's Perceived Reasons
Transparency 7-24:	Basic Steps in Compensation Plans Design
Transparency 7-25:	Compensation
Transparency 7-26:	Procedure for Evaluating
Handout 7-1:	Promotional Mix: Type of Business, Product, Buyer Stage
Handout 7-2:	Armstrong Marketing Representative
Handout 7-3:	Job Title/Sales Representative (English only)
Handout 7-4:	Job Description—Xerox Corp. (English only)
Handout 7-5:	Guidelines on How to Ask Questions
Handout 7-6:	Types of Closing Techniques
Handout 7-7:	Selected Reasons that Retail Sales are Lost
Handout 7-8:	Expressiveness Assessment Worksheet
Handout 7-9:	Assertiveness Assessment Worksheet
Handout 7-10:	Assertive—Expressive Chart
Handout 7-11:	Personality Identification Chart
Handout 7-12:	Johnson Drug Company Case
Handout 7-13:	Sales Force vs. Manufacturers' Representatives
Handout 7-13a:	Recruiting Sources of Sales Representatives
Handout 7-14:	To Train or Not to Train
Handout 7-15:	Compensation Incentives
Handout 7-15a:	Specific Elements in Motivations Mix
Handout 7-15b:	Methods of Compensation
Handout 7-16:	Evaluating Salesperson Performances
Handout 7-17:	Personal Selling

UNIT 7

SELLING AND SALES MANAGEMENT

CONTENT	PROCESS
A. Deciding on the Promotion Mix	
1. Advertising Personal Selling Sales Promotions Publicity	Discuss TP 7-1: Deciding on the Promotion Mix.
2. Type of Product	Discuss TP 7-2: Promotion Mix: Type of Product and TP 7-3: Sales and Advertising Expenditures.
3. Type of Business and Product	Discuss TP 7-4: Promotion Mix: Type of Business and Product.
4. Buyer Stage	Discuss TP 7-5: Promotional Mix: Type of Business, Product, Buyer Stage and use HO 7-1. Encourage two business owners in very different businesses to see how HO 7-1 applies to them.
B. Sales Force Objectives	Use TP 7-6a: Sales Force Objectives to briefly illustrate that selling objectives may include more than simply units or dollar volume.
C. Developing a Job Description	Use HO 7-2 (and HO7-3, HO7-4 to illustrate the various activities a salesperson can engage in. Although formal job descriptions may not be essential in a start-up small firm, understanding the potential tasks for the salesperson is important. Could ask participants to write down the key tasks for their sales people.

CONTENT	PROCESS
D. Sales Presentation Skills	
1. Preferred and Non-Preferred Openings used in some situations, e.g.: - Customer looking at a home video game; - Woman looking at a coat in an exclusive high-fashion women's clothing store; - Shopper looking at a telephone in a phone center store,	Discuss TP 7-6b: Preferred and Non-preferred Openings.
2. Types of Questions and Listening Skills	Discuss TP 7-7: Questions.
3. Guidelines on How to Ask Questions	Discuss TP 7-8: Guidelines on How to Ask Questions and HO 7-5.
4. Types of Closing Techniques: • Direct Close • Assumptive Close • Alternative Close • Summary/Agreement Close • Balance Sheet Close • Emotional Close • Standing-Room only Close	Discuss TP 7-9: Types of Closing Techniques and HO 7-6.
5. Spotting Closing Cues: a. Physical Cues b. Verbal Cues	Discuss TP 7-10: Spotting Closing Cues—Physical Cues and TP 7-11: Spotting Closing Cues—Verbal Cues.
6. Why Sales are Lost	Discuss TP 7-12: Selected Reasons that Sales are Lost (HO 7-7).
E. Characteristics of Successful Salespeople - Research Support - Others	Have participants fill out HO 7-8, HO 7-9 and then discuss results with HO 7-10 and HO 7-11: Personal Characteristics of Successful Sales People.

CONTENT	PROCESS
F. Designing the Sales Organization	
Basic Sales Force Structure Sales Force Size Build Up Method of Territorial Design Breakdown Method of Territorial Design	Discuss TP 7-13a: Basic Sales Force Structure, TP 7-13b: Sales Force Size, TP 7-13c: Build Up Method of Territorial Design, and TP 7-14: Breakdown Method of Territorial Design.
Johnson Drug Company Case	Provide the participants with HO7-12, let them read it. Allow participants to break into groups to discuss the case and report back.
G. Managing the Sales Force	Present TP 7-15: Managing the Sales Force.
1. Recruiting and Selection	
- Qualification Characteristics and Standards	Discuss TP 7-16: Categories of Qualification Characteristics and TP 7-17: Setting Qualifications Standards.
- Recruiting objective through maximizing our probability of selecting the best candidate	Discuss TP 7-18: Recruiting Objective. Discuss TP 7-19 and TP 7-20: Selection Process and distribute HO7-13 and HO7-13a.
- Selection Process: - Selection Tools - Application Bank	
2. Training:	Discuss TP 7-21: Training.
- Develop specific objectives for each session - Use effective teachers - Use a variety of methods - Strive for maximum participation - Evaluate training effectiveness	Distribute HO 7-14 and allow participants to read and then discuss this mini-case.
3. Motivation and Compensation Motivational impact includes: • ability • effort • strategy	Discuss TP 7-22: Determinants of Sales Performance and TP 7-23: Sales People's Perceived Reasons.

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CONTENT	PROCESS
• task difficulty • luck Methods of Compensation: - straight salary - straight commission - bonus	Discuss TP 7-24: Basic Steps in Compensation Plans Design and TP 7-25: Compensation. Distribute HO 7-15 (mini-case). Let participants read it and then discuss the key issues. Also distribute HO7-14 and HO7-15B.
4. Evaluation Procedure for evaluating sales persons include: - establishing basic policies - selecting evaluation bases - setting performance to standards - comparing performances to standards - discussing results with sales people	Discuss TP 7-26: Procedure for Evaluating. Distribute HO 7-16 (mini-case) and discuss key points.
H. Summary and Conclusions	Provide participants with HO7-17 for later reading. Briefly review several key points from the session.

I. DECIDING ON THE PROMOTION MIX

- Advertising
- Personal Selling
- Sales Promotions
- Publicity

A. Type of Product

B. Type of Business and Product

C. Strategy: Push vs. Pull

D. Buyer Readiness Stage

E. Product Life Cycle Stage

F. Store Life Cycle Stage

PROMOTION MIX: Type of Product

	Advertising
CONSUMER GOODS	Personal Selling
	Sales Promotion
	Publicity
	Personal Selling
INDUSTRIAL GOODS	Sales Promotion
	Advertising
	Publicity

SALES AND ADVERTISING EXPENDITURES
as a Percentage of Sales

Industry	SF/S	AD/S
Chemicals	3.0	2.7
Communications	21.6	5.0
Electronics	12.0	3.5
Fabricated Metals	6.4	5.9
Food Products	9.6	5.7
Instruments	10.3	2.4
Machinery + Equipment	13.0	1.3
Misc. Manuf.	13.2	6.1
Office Equipment	15.0	1.3
Printing + Publishing	8.3	3.5
Retail	23.5	3.3
Rubber + Plastics	2.8	1.9
Wholesaling	7.0	1.1

PROMOTION MIX: Type of Business and Product

- Producers — Industrial goods:

  Personal Selling

- Producers — Consumer goods:

  Personal Selling
  Advertising
  Sales Promotion

- Wholesalers:

  Personal Selling

- Retailers — Durables:

  Personal Selling
  Advertising

- Retailers — Non Durables:

  Advertising
  Sales Promotion

Promotional Mix: Type of Business, Product, Buyer Stage

	Manufacturers		Wholesalers	Retailers	
Buyer Stage	Industrial	Consumer		Durable	Nondurable
Awareness	Personal Selling	Advertising Personal Selling	Personal Selling	Personal Selling Advertising	Advertising Sales Pomotion
Interest	Personal Selling	Advertising, Personal Selling, Sales Promotion	Personal Selling	Personal Selling Advertising	Advertising Sales Promotion
Evaluation	Personal Selling	Advertising Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion
Trial	Personal Selling	Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion
Decision	Personal Selling	Advertising Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion

SALES FORCE OBJECTIVES

- Sales volume
  - In dollars and in units
  - By products and customers (or customer groups)
  - By mail, telephone, and personal sales calls
- Sales volume as a percentage of:
  - Quota
  - Market potential (that is market share)
- Gross margin by product line, customer group, and order size
- Orders
  - Number of orders
  - Average size (dollar volume) of order
  - Batting average (orders - calls)
  - Number of canceled orders
- Accounts
  - Percentage of accounts sold
  - Number of new or/and lost accounts
  - Number of accounts with overdue payment

INPUT FACTORS USED AS EVALUATION BASES

- Calls per day (call rate)
- Days worked
- Selling time versus nonselling time
- Direct selling expense
  - In total
  - As percentage of sales volume/quota
- Nonselling activities
  - Advertising displays set up
  - Letters written to prospects
  - Telephone calls made to prospects
  - Number of meetings held with dealers and/or distributors
  - Number of service calls made
  - Collections made
  - Number of customer complaints received

PREFERRED AND NON-PREFERRED OPENINGS

SITUATION 1: Customer looking at a home video game.

- **Preferred opening Salesperson: "Press this button like this [salesperson turns game on], and the game's all set to go. Why don't you try your luck?"**

- **Nonpreferred opening Salesperson: "Do you need some help in how to operate this thing?" Customer: [Gads, he thinks I'm stupid or something.] No, I was just looking."**

PREFERRED AND NON-PREFERRED OPENINGS

SITUATION 2: Woman looking at a coat in an exclusive, high-fashion women's clothing store.

- Preferred opening "That's 100-percent mink. Please let me help you on with it to see how it looks and feels."

- Nonpreferred opening "Want some help?" Customer: [She thinks I don't know how to put on a coat!] No, thank you."

SITUATION 3: Shopper looking at a telephone in a phone center store.

- Preferred opening "That phone will make a call for you if simply one button is pressed. Look how easy it is to operate."

- Nonpreferred opening "Are you interested in a phone?"

QUESTIONS

A. Open-ended

B. Reflective

C. Directive

- Guides the presentation
- Captures buyers attention and interest
- Demonstrates your interest in buyer
- Corrects misconceptions
- Develop rapport
- Method of soliciting agreement
- Method of close

LISTENING

- Concentrate on what is being said
- Maintain good eye contact
- Ask questions for clarifications and confirmation
- Do not be distracted by peculiarities in speech and appearance
- Do not talk or interrupt when a customer is talking
- Do not over-react emotionally

GUIDELINES ON HOW TO ASK QUESTIONS

1. Start with broad questions and move toward narrower questions. Broad, open-ended questions are less threatening than narrow, specific questions.

2. Listen to everything the customer says.

3. Keep questions simple and focused. Use one idea at a time.

4. Ask sensitive questions in a nonthreatening way (e.g., "How much were you planning to spend?" not "How much can you afford?"). If you must ask a very personal question, always explain why.

5. Always ask questions that are easy to answer! Studies show that people would rather answer a question when they agree than voice their objections.

6. Turn the statements your customer makes into questions to clarify or reinforce feelings. "So, Tuesday would be best for you, is that right?"

TYPES OF *CLOSING TECHNIQUES*

Technique	Definition	Example
Direct close	The salesperson asks the customer directly for the order	"Can I write this order up for you?"
Assumptive close	The salesperson assumes the customer is going to buy and proceeds with completing the sales transaction	"Would you like to have this gift wrapped?"
Alternative close	The salesperson asks the customer to make a choice in which either alternative is favorable to the retailer	"Will this be cash or charge?"
Summary/agreement close	The salesperson closes by summarizing the major features, benefits, and advantages of the product and obtains an affirmative agreement from the customer on each point	"This dishwasher has the features you were looking for" — YES "You want free home delivery?" YES "It is in your price range" — YES "Let's write up the sale"
Balance sheet close	The salesperson starts by listing the advantages and disadvantages of making the purchase and closes by pointing out how the advantages outweigh the disadvantages	"This dishwasher is on sale; it has all the features you asked for, you have 90 days to pay for it without any financial charges, and we will deliver it free. Even though we can not deliver it until next week, now is the time to buy."
Emotional close	The salesperson attempts to close the sale by appealing to the customer's emotions (love, fear, acceptance, recognition)	"The safety of your children could well depend on this smoke alarm. Now is the time to get it installed."
Standing-room only close	The salesperson tries to get the customer to act immediately by stressing that the offer is limited	"The sale ends today." "This is the last one we have in stock."

SPOTTING CLOSING CUES

<u>Physical cues</u> provided by customers

1. The customer closely reexamines the merchandise under consideration.

2. The customer reaches for his billfold or opens her purse.

3. The customer samples the product for the second or third time.

4. The customer is nodding in agreement as the terms and conditions of sale are explained.

5. The customer is smiling and appears excited as he or she admires the merchandise.

6. The customer intensely studies the service contract.

SPOTTING CLOSING CUES

Verbal cues provided by customers

1. The customer asks "Do you offer free home delivery?"

2. The customer remarks "I always wanted a pair of Porsche sunglasses."

3. The customer inquires "Do you have this item in red?"

4. The customer states "This ring is a real bargain."

5. The customer exclaims "I feel like a million bucks in this outfit!"

6. The customer requests "Can you complete the installation by Friday?"

SELECTED REASONS THAT RETAIL SALES ARE LOST

Poor qualification of the customer.

Salesperson does not demonstrate the good or service.

Failure to put feeling into presentation.

Poor knowledge.

Arguing with a customer.

No suggestion selling.

Giving up too early.

Inflexibility

Poor follow-up.

PERSONAL CHARACTERISTICS OF SUCCESSFUL SALES PEOPLE

Research Support:

- self-confidence
- empathetic ability
- need for achievement
- need for autonomy
- adaptability

Others:

- sincerity
- sociability

BASIC SALES FORCE STRUCTURE

Geographic

One product line to one customer class in many different locations

Advantages:

- clear definition of responsibility
- more incentive to cultivate local ties
- no duplication and total coverage
- smallest travel costs
- sales potential information easiest to obtain

Product

Many diverse products to many different customer classes...

technically complex
highly unrelated
very numerous

Advantages:

- product knowledge
- specialization

Market/Customer

One product line sold to many diverse customers...

size
industry
channel

Advantage:

- customer knowledge specialization

4 Di

SALES FORCE SIZE

1. Customers grouped into size classes according to potential volume.

2. Call frequencies established using estimated sales response functions.

3. Calculate total calls required annually.

4. Estimate average number of calls a salesperson can make in a year.

5. Divide total annual calls required by average number of calls a salesperson can make in a year.

BUILD-UP METHOD OF TERRITORIAL DESIGN (equalizing workload)

Management must determine:

A. Number and location of customers and potential sales to each.

B. Desirable call patterns based on call frequency per account per year.

C. Workload capability per rep per year based on calls per rep per day.

D. Select control unit and determine total calls per year in each.

E. Preliminary territories based on:

   1. Select starting points

   2. Combine adjacent control units until total calls per year equals total calls per year.

F. Modify the tentative territories as needed and draw territorial boundary lines.

BREAKDOWN METHOD OF TERRITORIAL DESIGN (equalizing potential)

Management must determine:

A. Company's potential

B. Sales volume expected from each sales person

C. Select control unit and estimate sales potential in each

D. Determine preliminary territories based on:

    1. Select starting points

    2. Combine adjacent control units until sales potential equals targeted volume per year

E. Modify the tentative territories as needed and draw territorial boundary lines.

MANAGING THE SALES FORCE

1. Rercruiting and Selecting

2. Training

3. Motivation and Compensation

4. Evaluation

CATEGORIES OF QUALIFICATION CHARACTERISTICS

- Experience
- Education
- Communication Skills
- Mental Capacity
- Poise and Maturity
- Appearance
- Character
- Health
- Interests

Common Problem:

- Setting standards too high or too narrow
- Setting standards subjectively

SETTING QUALIFICATIONS STANDARDS

1. Sort the top 25% of your salespeople into one group and the bottom 25% in another group.

2. Examine each of the qualification categories to see if there are significant differences between the high performing group and low performing group.

RECRUITING OBJECTIVE:

- **Maximize our probability of selecting the best candidate!**

<u>How?</u>

1. Allocate sufficient resources — time and money
2. Establish a recruiting agency
3. Match the recruiting source with strategic sales objectives
4. Keep recruiting records
   a. Number of recruits per source
   b. Percentage hired per source
   c. Percentage retained per source
   d. Percentage high performers per source
   e. Cost of source
   f. Calculate cost per successful performer

SELECTION PROCESS

Selection Tools:

1. Application Blanks
2. Interviews
3. Tests
4. References
5. Physical Exam

   - no single tool should be used
   - use the information as an aid in the decision making process

Application Blank

- request only information which is related to successful performance
- systematic/scoring using a weighing and rating system

Tests

- should be validated
- use in situations where:
  1. a large number must be hired
  2. young and inexperienced
  3. cost of failure to the company is high

Interview

- adequate structure
- adequate time
- trained interviewers
- rating sheets
- multiple interviews

Training

- Develop specific objectives for each session

  e.g., improved close
  new product information
  understanding company goals
  improved use questioning & listening skills
  company policies & procedures

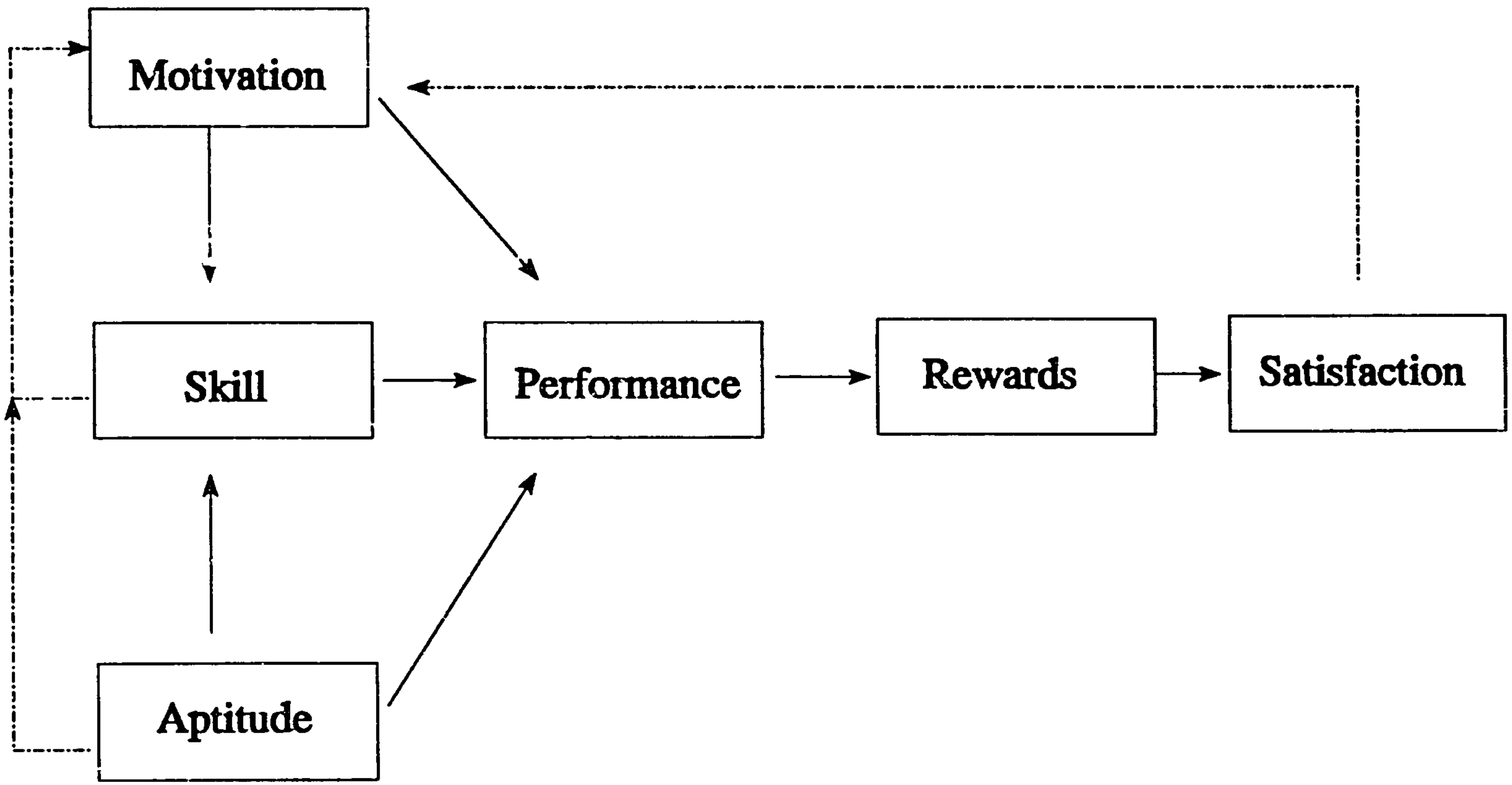
- Use a variety of methods
- Use effective teachers
- Strive for maximum participation
- Evaluate training effectiveness

  a. individual — testing
  student evaluation
  videotaping
  performance changes

  b. group — retention
  revenue
  comparison with a control
  group

*Note: Generally, too many training dollars are spent on product knowledge and too few on selling skills.

DETERMINANTS OF SALES PERFORMANCE



Sales People's Perceived Reasons for Failure and Their Motivational Impact

MOTIVATIONAL IMPACT

Perceived reasons	Positive	Negative
Ability	Seek help; get additional training; ask for supervisor's assistance	Become frustrated and discouraged; give up
Effort	Work harder; make more calls; work longer hours	No change in behavior
Strategy	Change selling strategy; adapt the presentation	None
Task difficulty	Work harder; change strategies; or seek help	Become frustrated and discouraged; give up
Luck		None None

BASIC STEPS IN COMPENSATION PLANS DESIGN

1. Establish the level
2. Choose the method

Choice at Level and Method

1. Nature of the job
2. Strategic sales objectives
3. Nature of the market
4. Caliber of people desired
5. Financial conditions of company
6. General business conditions

COMPENSATION

Objectives:

1. Competitive — to attract and retain qualified people
2. To control the direction of the salesperson's effort
3. To provide an incentive to encourage effort
4. to reward efforts and results

From the salesperson's perspective:

1. An adequate, steady income
2. Equitable
3. Reward for results and effort

PROCEDURE FOR EVALUATING SALES PEOPLE

1. Establish basic policies
2. Select evaluation bases
3. Set performance standards
4. Compare performances to standards
5. Discuss results with sales people

Promotional Mix: Type of Business, Product, Buyer Stage

	Manufacturers		Wholesalers	Retailers	
Buyer Stage	Industrial	Consumer		Durable	Nondurable
Awareness	Personal Selling	Advertising Personal Selling	Personal Selling	Personal Selling Advertising	Advertising Sales Pomotion
Interest	Personal Selling	Advertising, Personal Selling, Sales Promotion	Personal Selling	Personal Selling Advertising	Advertising Sales Promotion
Evaluation	Personal Selling	Advertising Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion
Trial	Personal Selling	Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion
Decision	Personal Selling	Advertising Sales Promotion	Personal Selling	Personal Selling	Advertising Sales Promotion

Armstrong	Position Title Marketing Representative (all levels)		Pos. No. Date:	
Incumbent As assigned	**Plan/Department** Floor Division	**Writer** J.A. Gingach	Approved S.A.D.	 MGR.

Job Function

Under general supervision of the District Manager or Assistant District Manager, this position is responsible for developing and achieving maximum profitable sales volume of Division products in an assigned territory.

Dimensions

Sales Volume: ranges from $1-$7 million.

Territory: the District is typically divided into geographic areas with this position responsible for one of those areas; additionally, the position will be given direct responsibility for 1-4 Armstrong wholesalers.

Product Line: consists of a wide range of resilient flooring products including: Corlon and Solarian sheet flooring; resilient tile; vinyl sheet flooring; and adhesives and sundries.

Distribution: is achieved by sales to wholesalers who in turn sell to flooring specialty stores, flooring contractors, furniture stores, department stores, building supply stores and home improvement centers.

Major Emphasis: is directed toward developing and improving the wholesalers in all their functions through such means as training and assisting wholesaler salespeople, helping these people make specific sales, developing new business, and generally contributing to the effectiveness of their operations.

Organization Supervised	**None**

1. Develops and achieves maximum sales volume consistent with realistic sales projections within assigned territory. Controls expenditures within approved expense budget.

2. Develops and maintains favorable wholesale distribution of entire Division line within assigned territory. Recommends on the addition or termination of wholesalers. Develops thorough familiarity with wholesaler's business, sales activity, potentials, and requirements.

3. Closely oversees operations of assigned wholesalers. Advises or assists them in such areas as inventory selection and control, service to customers, profit opportunities and ratios, etc. Investigates and corrects problem situations such as duplication of orders, receipt of poor quality goods, etc. Draws on Armstrong staff services as special assistance is indicated.

4. Translates promotional goals into concrete plans and assignable responsibilities, determining what is to be done and achieved, and who is to achieve it.

5. Identifies the work which must be done to achieve intended results. Divides this work into parcels that can be performed by single individuals.

6. Maintains proper relationships and interrelationships to assure teamwork and a unified effort between wholesaler and retailer.

7. Promotes Armstrong product line and its features and sales points, and an understanding of Armstrong policies and procedures, among the entire wholesaler organization. Keeps personnel informed on new products, price changes, and related concerns. Adapts Lancaster promotional services to local needs and conducts sales meetings to explain same; follows through on all promotions.

8. Assists wholesales, sales personnel in concerned territory in their selling efforts, and trains some through promotional meetings, traveling with each person on a regular basis, helping in making specific sales and developing new business.

9. Plans territory coverage. Regularly calls upon key retail accounts (current and prospective). Takes orders; promotes the marketing and display of Armstrong products; encourages dealer to capitalize on Armstrong's advertising and promotional efforts; introduces new materials; trains counter personnel; provides literature and samples.

10. Investigates and evaluates field complaints; recommends disposition of complaints accordingly.

11. Keeps District Manager's Office and Lancaster advised on matters of specific business interest such as market conditions, competitive situations, product needs, etc. Consults with District Manager's Office concerning matters of policy, unusual situations, pricing, etc.

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JOB TITLE SALES REPRESENTATIVE	JOB CODE
ESTABLISHMENT - DEPARTMENT MARKETING BD SALES	DATE

FUNCTION

Promotes and consummates the sale of office systems and related equipment, paper, accessories, and other supplies within an assigned geographic territory, for the Business Division.

MAJOR ACTIVITIES

A. Establishes and maintains close liaison between the company and customers within an assigned geographic territory for the ultimate purpose of selling Business Division products.

B. Establishes and maintains a working rapport with customers by providing expertise in the analysis of systems problems and the application of BD products and services to the solution of these problems.

C. Provides service to customers by recommending changes in operating procedures, assisting them in planning for office systems applications, recommending equipment purchases and supervising their installation, suggesting methods of quality control, and checking to determine that equipment and systems function properly.

D. Provides accurate and timely information on office products and demonstrates to customers the benefits derived from utilizing these products in his/her business. Keeps customers and prospects updated on new products and office systems.

E. Assists customers in achieving the high quality capabilities of the company's office products.

F. Prepares a variety of reports and correspondence including data reports on activities, expenses, market acceptance of office products, product problems, market needs, etc.

G. Studies customers systems needs and formulates written proposals to satisfy these with the general philosophies established by BD. Outlines systems recommendations incorporating products in customer proposals, cites advantages and operating cost reductions resulting from the proposed system.

H. Maintains a thorough familiarity of the products of other manufacturers in order to deal with questions posed by customers and prospects in daily activities.

6. Responsible for submitting knowledgeable reports on emerging trends in the marketplace, market needs, and ideas for new products that demonstrate a thorough understanding of the company's position in the marketplace and the direction it must pursue to maintain and improve this position.

7. Shows increasing expertise and professionalism in customer contracts, diagnosis of customer needs, analysis of systems, preparation and presentation of proposals for new systems based on sound economic evaluations.

8. Is expected to exhibit maturity and competence in running the assigned territory with a minimum of direction. Has demonstrated the ability of developing large accounts, multiple sales, etc.

B. Innovation

1. Has a thorough understanding of the capabilities of other manufacturers' products and effectively uses this information to serve customers' needs.

2. Demonstrates originality and creativity involving systems problems and meeting needs of the market.

3. Responsible for consistently aiding customers by disseminating information on new methods, systems, and techniques that are applicable to their operations.

JOB KNOWLEDGE

A. Has a college degree or the equivalent in applicable training and experience.

B. Requires completion of the basic BD training program.

C. Requires a thorough knowledge of all billing, credit, and distribution procedures, paperwork, and policies and is capable of resolving complex problems in these areas with a minimum of confusion, frustration, and inconvenience for all parties concerned.

D. This level of activity is generally achieved with four years selling experience, or the equivalent with the assigned products where the individual is subjected to all types of problems and challenges covering the entire product line.

Written by	Approved	Date	Approved	Date

Exhibit 4-A. Job description, marketing representative for Xerox Corp.

JOB DESCRIPTION

Primary Function: To achieve assigned sales operating plan objectives in Group III establishments by: prospecting new accounts, developing and maintaining customer rapport, identifying customer requirements for office equipment, matching customer requirements to existing Xerox equipment via written proposals, demonstrating Xerox equipment, signing orders for equipment, resolving customer problems, ensuring proper installation of equipment, training customers on the proper use of equipment, and performing customer care calls to endure customer satisfaction.

Source of Supervision: Marketing/Sales Manager

Job Duties and Responsibilities:

Conducts Customer Prospecting Calls

- Plans, organizes, and prioritizes the following activities on a regular basis; customer prospecting calls; customer appointments; customer care visits; customer follow-up calls; customer training; demonstration; and internal meetings.

- Performs 15-30 customer prospecting calls (cold calls) per day to identify potential new business or develop customer rapport with previous contacts.

- Asks office personnel questions to identify key decision maker(s) (e.g., office manager).

- Asks probing questions and listens to customers' responses to identify potential office equipment requirements.

- Documents customer information (e.g., customer's name and location, type of existing office equipment, customer requirements for new office equipment) on an account profile form to create a record of all customer prospects.

- Distributes business cards, sales brochures, and promotional information to customer locations to establish contact with potential customers.

Conducts Customer Appointments

- Schedules appointments with customers to further identify customer requirements for office equipment.

- Gathers information to identify customers' requirements for office equipment by asking probing questions (e.g., current copying and/or FAX equipment used, satisfaction with current equipment, lease agreement on current equipment, number of copies per month, type of copying done, the amount of work that is sent out for outside copying, future needs for copying and/or FAX equipment).

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- Answers customers' questions about Xerox equipment and service.

- Verbally presents information to customers using brochures and other written materials (e.g., price lists) to inform customers about Xerox equipment and service.

- Documents results of customer calls and necessary actions needed to advance the call through the sales cycle.

Conducts Customer Call Follow-up

- Seeks information to answer customers' questions from various resources (e.g., written documentation, field support personnel, sales managers, and other sales representatives).

- Returns customer telephone calls to answer questions and provide information.

- Writes follow-up thank you letters to customers summarizing the key points of customer calls.

- Mails information (e.g., flyers, brochures) to customers regarding new office equipment and sales promotions.

Develops Written Sales Proposals

- Discusses customer requirements with sales managers and other sales representatives to obtain information and develop a strategy for meeting customer requirements.

- Inputs information into sales range pricing data base to obtain information regarding the cost and financing of office equipment.

- Calculates finance factors using basic mathematics (+, -, x, ÷) and finance principles to obtain cost of ownership information.

- Writes sales proposals that recommend office equipment and provide product, service, and financial information to meet customers' requirements.

- Types sales proposals using a 6085 computer terminal (if necessary).

Perform Product Demonstrations

- Schedules appointments with customers to demonstrate equipment.

- Cleans and checks equipment to ensure equipment performance quality (e.g., copy quality, free from jamming).

- Tailors demonstration to meet identified customer requirements.

- Obtains information about competitors' equipment and integrates this information into demonstration.
- Practices demonstration to ensure that equipment is working properly.
- Performs demonstration for customer by presenting product information, running customer applications on the equipment, answering customer questions, and probing the customer for additional requirements.

Negotiates Close of Sale

- Discusses terms of lease or sale of equipment with customer to clarify all costs of ownership.
- Obtains written commitment from customer to lease or purchase equipment by asking questions to obtain customer information (e.g., desire to purchase equipment, customer location, contact person, bill specifications) needed to complete order form.
- Reviews information on equipment order form with customer to clearly specify the terms of the agreement and ensure information accuracy.
- Answers all customer questions regarding the terms of the lease or sale of the equipment.

Completes Paperwork to Place Customer Orders for Equipment

- Communicates order information to customer administration representatives, billing representatives, and credit representatives to ensure timely processing of customer order for equipment.
- Obtains additional information from customers to clarify any problems with equipment orders.
- Discusses possible dates for equipment installation with scheduler and confirms installation date with customers.
- Initiates follow-up communications with all order-to-install personnel to ensure the accurate and timely processing of customer orders and equipment installation.

Assists in the Installation of Equipment (if necessary)

- Measures space requirements to ensure sufficient space is available for equipment installation.
- Assists Customer Service Engineers (CSEs) with the installation of equipment.

Trains Key Operators and Other Equipment Users

- Presents an overview of equipment features and capabilities to customers.
- Demonstrates proper use of the equipment by running specific customer applications.
- Answers customer questions regarding the operation of equipment, servicing of equipment, ordering of supplies, and trouble-shooting equipment problems.

Maintains Rapport with Customers

- Conducts periodic post-sale customer care visits to answer customer questions, solve customer problems, maintain rapport with customers, and identify any additional office equipment needs.
- Obtains information and contacts the appropriate personnel to solve customer problems and ensure customer satisfaction.

Participates in Quality Improvement Activities

- Attends planning and review meetings and territory reviews to help forecast sales and develop strategies for closing sales cycles.
- Attends team meetings and participates in developing creative solutions to existing problems.
- Writes and delivers presentations in order to share information with other sales representatives and managers.
- Uses the tools of Leadership Through Quality to improve work processes and solve problems.

Job Prerequisites

Must possess a Bachelors Degree or have 2-3 years of relevant sales experience. Must pass all parts of the qualifying test battery for the Marketing Representative position regarding written and verbal communication skills, planning and organization skills, presentation skills, listening ability, problem-solving ability, mathematics/finance skills, and customer relations skills.

The above statements reflect primary activities that are necessary for success in Marketing Representative positions, and shall not be considered a detailed description of all job requirements. The purpose of this job description is to serve only as a basis for developing a new selection process for Marketing Representatives and to provide job applicants with a detailed description of the work requirements.

GUIDELINES ON HOW TO ASK QUESTIONS

1. Start with broad questions and move toward narrower questions. Broad, open-ended questions are less threatening than narrow, specific questions.

2. Listen to everything the customer says.

3. Keep questions simple and focused. Use one idea at a time.

4. Ask sensitive questions in a nonthreatening way (e.g., "How much were you planning to spend?" not "How much can you afford?"). If you must ask a very personal question, always explain why.

5. Always ask questions that are easy to answer! Studies show that people would rather answer a question when they agree than voice their objections.

6. Turn the statements your customer makes into questions to clarify or reinforce feelings. "So, Tuesday would be best for you, is that right?"

7. Use questions to develop the presentation! "You mentioned that your present car needs repairs. What types of repairs does it need?" Explain the advantages of a new car.

8. Use caution when leading clients with questions. Always respect the intelligence of your prospect.

9. Use questions to give information. "Are you aware of our 90-days same as cash policy?"

Types of Closing Techniques

Technique	Definition	Example
Direct close	The salesperson asks the customer directly for the order	"Can I write this order up for you?"
Assumptive close	The salesperson assumes the customer is going to buy and proceeds with completing the sales transaction	"Would you like to have this gift wrapped?"
Alternative close	The salesperson asks the customer to make a choice in which either alternative is favorable to the retailer	"Will this be cash or charge?"
Summary/agreement close	The salesperson closes by summarizing the major features, benefits, and advantages of the product and obtains an affirmative agreement from the customer on each point	"This dishwasher has the features you were looking for" — YES "You want free home delivery?" YES "It is in your price range" — YES "Let's write up the sale"
Balance sheet close	The salesperson starts by listing the advantages and disadvantages of making the purchase and closes by pointing out how the advantages outweigh the disadvantages	"This dishwasher is on sale; it has all the features you asked for, you have 90 days to pay for it without any financial charges, and we will deliver it free. Even though we can not deliver it until next week, now is the time to buy."
Emotional close	The salesperson attempts to close the sale by appealing to the customer's emotions (love, fear, acceptance, recognition)	"The safety of your children could well depend on this smoke alarm. Now is the time to get it installed."
Standing-room only close	The salesperson tries to get the customer to act immediately by stressing that the offer is limited	"The sale ends today." "This is the last one we have in stock."

Selected Reasons That Retail Sales Are Lost

Poor qualification of the customer.

Salesperson does not demonstrate the good or service.

Failure to put feeling into presentation.

Poor knowledge.

Arguing with a customer.

No suggestion selling.

Giving up too early.

Inflexibility

Poor follow-up.

Expressiveness Assessment Worksheet

Less Expressive (0-4)	Characteristic Assessment Score	More Expressive (6-10)
Controls Feelings	________	Express Feelings
Limits Gestures	________	Frequent Gestures
Task Oriented	________	People Oriented
Acts Guarded	________	Displays Openness
Time Disciplined	________	Time Flexible
Appears Reserved	________	Appears Friendly
Fact Oriented	________	Opinion Oriented
Total:	________	
Divided by: (Number of characteristics assigned a score)	________	
Equals:	________	

Average Expressiveness Score

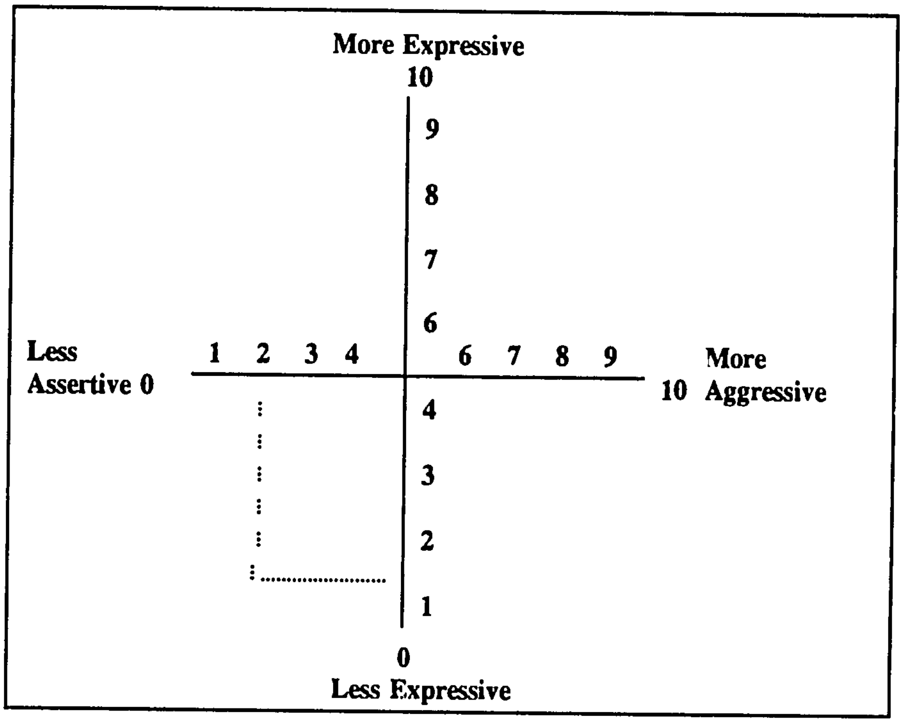
____

Assertiveness Assessment Worksheet

Less Assertive (0-4)	Characteristic Assessment Score	More Assertive (6-10)
Is Less Confrontational	________	Is More Confrontational
Reserves Opinions	________	Expresses Opinions
Makes Contemplative Decisions	________	Makes Swift Decisions
Projects Patience	________	Displays Impatience
Avoids Risks	________	Takes Risks
Speaks Calmly	________	Speaks Intensely
Moves Deliberately	________	Moves Rapidly
Takes Less Conversational Initiative	________	Takes More Conversational Initiative
Total:	________	
Divided by: (Number of characteristics assigned a score)	________	
Equals:		
	Average Assertive Score ________	

Assertive — Expressive Chart

The chart below, as an example, diagrams an individual whom we have assessed as low *assertive* and low *expressive*. If we draw dotted lines from the subjects' score and each scale, until they intersect at a single point, we note that the location of this <u>point</u> falls within one of the four quadrants.



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PERSONALITY® IDENTIFICATION CHART

Personality Types	Appearance & Actions	Expressions	Interests(Sports & Pastimes)	Office Environment
Authoritarian The Authoritarian is normally competitive, a quick decision-maker and likes to win. Since he is results-oriented, he often dislikes "idle chit-chat" or "small talk." This individual tends to resist external rules, policies and situations that restrain him from assuming control and exerting his own authority. He is normally prompt and well organized, and may appear brusque while trying to complete a project. The Authoritarian can be characterized by forceful voice, firm gestures and mannerisms. Risk taking does not threaten him; he enjoys assuming control. Under stress, whether caused by the salesperson or other external factors, the Authoritarian may become autocratic and insensitive.	• Firm handshake • Suite with white shirt • Direct and pointed speech • Conservative or traditional attire • Clothing usually not trendy • Minimal facial expressions • Moves quickly	• What's the bottom line? • What were the results? • Be more specific • I'll give you 15 minutes	• Corporate life • Bridge • Football • Enjoys brief reading material	• Clean desk • Quotes on wall read, follow, do something or get the "hell" out of the way • Process charts on wall • Company award on walls • "To-do lists" • Sparsely decorated office
Ego The Ego is usually highly creative and energetic. He will often develop creative ideas and expects others to listen to these ideas with genuine interest and appreciation. "Showy" presentation appeal to the Ego. Recognition and attention are highly important to the Ego. Decisions and activities are often weighed by "what is in it for me." The Ego tends to dominate conversations with his own ideas and personal stories. His energy level is frequently high and he may be willing to work long hours at a job or project as long as he receives encouragement and recognition for his efforts. Under stress, the Ego may become overbearing and attacking.	• Gives information • Attention attracting jewelry • "Trendy" fashions • Bright colors • Designer clothes • Stylized hair • Speaks rapidly • Good vocal inflection and volume • Gestures frequently	• When I quarterbacked at Harvard • Let me tell you what I did • "Name dropper"	• Golf • Body building • Tennis • Jet-set travel • Generally reads less than other three types	• Plaques/Trophies • Autographed pictures • Cluttered desk • Inspirational posters on wall
Sociable The Sociable can be described as warm, kind, friendly, and supportive. He strives to create a comfortable environment for himself and others. It is not his desire to conquer the world, but to make himself and others at home in it. He prefers to avoid conflict and seeks pleasant situations. He is cautious and not very decisive for fear of upsetting a known and comfortable setting. A Sociable is not apt to take control. He needs to know what is expected of him and will appreciate encouragement along the way. This individual likes to be liked and is not a "boat rocker." He will have many different friends, and display an easy going nature. Under stress, the Sociable may become conforming and permissive.	• Penny loafers • Cheerful countenance • Soft colors • Contact Pat-On-the-Back • Non-offensive dress • Soft voice • Slow-paced gestures	• How can I help? • Tell me about it • Don't worry, it will work out • I think you are right • How has your day been?	• Civic groups • Joke telling • Cooking • Tennis • Baseball • Reads biographies • Enjoys small groups or one-on-one interaction	• Pictures of family/friends • Open office • Personal or sentimental objects • Office is informal

Analytic The Analytic is detailed and fact oriented. He has almost an obsession with details and accuracy and is reluctant to deviate from existing policy. Because he requires all available facts, the Analytic often is not quick to reach a decision. The slower, more comprehensive decision-making process appeals to the "perfectionist" side of the Analytic. Generally, this individual believes that it is important to have rules and policies and that these rules and policies should be followed almost without exception. Under stress, the Analytic may become withdrawn and nit picky.	• Seeks information • Calculator watch • Does not display much emotion • Practical or conservative dress • Soft handshake • PermaPress shirts/blouses • Minimal jewelry • Minimal facial expressions • Few gestures • Chooses words carefully	• Let me put a pencil to it • How much does it cost? • Let me weigh the matter • What is the bottom line? • It's 10:08 A.M.	• Chess • Stamp collecting • Jogging • Bridge • Documentary shows • Voracious reader	• Personal computer • Practical office arrangement • Organized stacks of papers • Abundance of information sources • "To-do lists" • Office is conventional and neat

Johnson Drug Company*

Late in 1977 Eric Johnson, president of the Johnson Drug Company, a drug wholesaler, was studying the company's sales force. The industry was shifting from an outmoded "product-loading" philosophy to strategies based on consumer needs and wants. "We used to be able to sell individual products to the pharmacist and take orders on a routine basis," Johnson commented, "but now we should sell a complete system which assists the pharmacist in managing as well as selling." The drug wholesaler is increasingly looked upon as a service wholesaler who provides a sophisticated system of information, recording, analysis, and management consulting. Mr. Johnson believed that a redefinition of sales force responsibilities to align them with corporate objectives was critical to this transition. He recognized a need for closer correspondence between the responsibilities and objectives of the sales force and management's long-term commitment to systems selling.

Company background

The company began its operations in Peoria, Illinois, in 1875. It is a family-owned business that was handed down from grandfather to father to son. Mr. Johnson has served as the chief operating officer for the past 15 years. He oversees the major departments, which are operations, sales and buying, credit, and accounting. Reporting to him are the Vice President of Merchandise, the Secretary-Treasurer, the Sales Manager, the Operations Manager, and the Credit Manager. The sales force consists of ten salespeople who call upon the independent retailers in the Peoria trading area.

The products which the company has distributed for over a century fall into the following product classes: cosmetics, drugs, narcotics, pharmaceuticals, proprietary products, sundries, and toiletries. The market for these commodities comprises physicians and pharmacists located in the hospitals, clinics, and pharmacy departments of both medical and retail institutions. The Johnson Drug Company has three major competitors in the Peoria area. Each has a dollar volume which does not quite equal Johnson's annual sales of $25 million. In addition, such mass merchandisers as Revco, SuperX, and Walgreen have in recent years, competed with the local independents which the drug wholesalers serve. In describing the structure of the company's accounts, Mr. Johnson indicated that, as in many businesses, 80 percent of the company's profit was attained through 20 percent of its accounts. Many of Johnson's customers, including its larger accounts, are not yet buying the "system." Rather, they place periodic orders with the salesperson for the individual product lines when he calls upon them. Ideally, Johnson would like to have all of its customers utilizing the "service system."

The evolution of drug wholesaling

From 1930 to 1950, the drug wholesaling industry experienced a "sales-oriented" era. Characteristic of this era was a surge in consumer demand and rapid growth in competition.

*This case was developed by Rosann Spiro, The University of Tennessee. Used by permission.

During this period, the Johnson Drug Company stressed the sales function and the company's objectives were stated in terms of increased sales volume. By the early 60s, American pharmaceutical markets had grown considerably, competition for the consumer dollar was acute, and the selection of the appropriate distribution channels was becoming increasingly difficult. Drug wholesalers began to identify and respond to the needs of their customers, the retailers and hospitals. The Johnson Drug Company recognized such additional goals as margin contribution and profit maximization. As part of the effort to satisfy its customers' needs, the Johnson Drug Company, as well as its competitors, placed more emphasis on services. These services included increased delivery scheduling, acceptance of special emergency orders, credit extensions, shelf stocking, discount pricing, and "free goods." This trend played a major role in the transformation of the wholesale drug industry. In fact, some wholesale houses began to refer to themselves as "service drug wholesalers."

The 60s were characterized by intense product and service competition. Three consequences of this competition were the standardization of products and services, price/profit erosion, and the demand for free services. Standardization resulted because the innovative services which were offered to the customer by a particular drug wholesaler were copied by all of its competitors. Thus, sales personnel were quickly deprived of product/service differentiation as a selling point. Price/profit erosion occurred as retailers "shopped" wholesale competitors for discounts. Under this pressure to offer discounts, the gross profit margins of wholesale drug companies became uncomfortably thin. Also, retailers began to demand more "free services" (e.g., promotion management, business consultation), employing the same "shopping" strategy. The combination of these three consequences seriously diminished the profitability of drug wholesaling firms for several years.

In the late 60s, many business observers began to wonder whether the independent pharmacist was a thing of the past. Chain drugstores, supermarkets, and discounters grew steadily. These larger operations utilized their financial clout to negotiate favorable terms with bankers, developers, and manufacturers. Their advertising stressed discount pricing, ample parking, huge stores, and unlimited product variety. Obviously, neighborhood pharmacies were being threatened by competition more powerful than they could combat. The intense competition, reduced market share, higher costs, and lower margins had both the retailers and the wholesalers who served them searching for ways to avoid possible extension. Struggling to survive, the druggist found help by taking advantage of the updated and extended services offered by the drug wholesaler. During the 70s, the pharmaceutical wholesaler systems have extended the competitive life of the independent retailers as well as that of the wholesaler function.

The drug service system

A pharmaceutical system is a sales-generating package comprising the various health care commodities, computerized order processing equipment, and related merchandising services. Marketed as a complete system, it has the ability to add value to a firm's total product offering. The added value is derived from the system's contribution toward decreasing the customer's overall costs and increasing its revenues. The system may contribute to decreasing costs in any of the following areas: order replacement decisions (timing, source, and quantity), labor employment, credit policy formulation, bookkeeping, shelf stocking, inventory decisions, carrying costs, traffic flow, layout structure, financial decision making, and merchandising strategy planning. The system may also contribute to increasing revenues by helping solve problems caused by poor selection of inventory and inconsistent pricing.

The Johnson Drug Company adopted the "system" approach in 1973. Its drug service system offers a complete inventory management system including order entry, price stickers, shelf labeling, microfilm inventory and price files, and annual inventory reports, as well as operating statements, quarterly reports, accounts receivable analysis, and customer billing. As part of the package, Johnson Drug also offers a cooperative promotional program and sponsors centralized group buying from certain manufacturers. (See Exhibit 1 for a more detailed description of these services.)

The sales force

The Field Sales Manager reports to Mr. Johnson. The ten salespeople are responsible only to the Sales Manager. The salesperson's duties include not only selling the system but also selling the individual product lines to those customers who are not on the system, as he has always done. The duties of the Sales Manager include being a public relations person, a field supervisor of the sales force, a field intelligence person, a troubleshooter, and last but not least, a seller of systems. In his role as an intelligence person, the Sales Manager serves as a vital link in the communications chain between the marketplace and top management.

Promotion from within the company has been the major source of sales personnel. In terms of qualifications, there are not set policies. Prior experience in sales or in the wholesale drug industry is of course considered a "plus" in a new hiree. The level of education has never been an imperative criterion. The major selection tool is the personal interview. Typically, the Credit Manger or the Operations Manager conducts an initial interview. Upon the recommendation of these managers, the Field Sales Manager or Mr. Johnson will conduct a second interview with an applicant. Both of them have the authority to hire the applicant if the sales force has an opening.

Upon selection, each new salesperson is required to work in the warehouse preparing orders until he has been exposed to all of the product areas. This facilitates his understanding of the product groups and the industry language. Second, the salesperson is required to gain a working knowledge of the equipment utilized in the drug service system. The Sales Manager is responsible for reviewing pertinent company policies with each new recruit. Finally, before being assigned to a territory, the trainee travels with an established salesperson in order to get a "feel" for the job ahead.

As noted earlier, the Sales Manager is primarily responsible for the field supervision of the salespeople. His only formal sources of information are the monthly sales account reports submitted by each salesperson. The monthly sales account report details the amount of gross profit generated by each account and indicates whether sales were based on a cost-plus discount or the regular price. Sales meetings are held monthly to relay information to the salespeople regarding promotional drives and new products. In terms of territory design, every attempt is made to divide sales volume evenly among the salespersons.

EXHIBIT 1
The pharmaceutical drug service system

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1. *Order entry*—a hand-held computer terminal which contains keyed item code numbers. Memory capacity allows for "recall-and-search" on the LED display. Dialing a special order entry telephone number and placing the terminal into a transmission "cradle" transmits the order to the wholesale house for processing and delivery.
2. *Invoicing*—same-day delivery guaranteed by the purchase invoice for merchandise ordered.
3. *Price labeling*—price stickers preprinted and attached to the merchandise ordered.
4. *Shelf labeling*—the wholesale company product display which indicates item location, item number, and inventory.
5. *Quarterly and annual reports*—the wholesale firm provides performance reports which detail item turnover, expenses, revenues, margin analysis, and other pertinent data.
6. *Retailer accounts receivable*—a periodic compilation of a pharmacist's accounts receivable is prepared and mailed after evaluation by either the pharmacist or the wholesaler.

Systems may also include any combination of the following:

7. *Accounts payable payroll.*
8. *Operating statements.*
9. *Prescription files*—patient profiling and drug interaction and allergy control checking.
10. *Long- and short-term financing.*
11. *Management counseling.*
12. *Automatic reorder plans.*
13. *Drug inventory and pricing services* (microfilm).
14. *Sales and promotional programs.*
15. *Merchandising and advertising programs*—these programs aim "to accent the neighborhood store's competitiveness in the consumer's mind and to fortify the drugstore's position against so-called discounters."

The salespeople are paid a straight commission, based on the gross profit generated by each territory. This gross profit is based on the amount of delivered goods. "Returns" are deducted from total sales, and this affects the total compensation paid. New people are paid a salary until they reach a predetermined volume of sales, at which time they are switched to a commission basis. The average annual compensation of the salespeople is between $18,000 and $20,000, which is comparable to that paid by Johnson's competitors.

The salespeople pay for their personal expenses and their gas, hotel, and food bills. They are also responsible for telephone charges incurred by clients placing orders to the Peoria warehouse. There are no general sales quotas, but the salespeople can earn bonuses which are paid by the drug manufacturers. These are offered in conjunction with promotional drives for specific products. A salesperson can earn a 1-2 percent bonus, depending on the volume of the sales generated by these products.

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Mr. Johnson stated that selling the "system" was more than just an efficient method of moving products—it represented a new commitment to the customer. "The Johnson Drug Company," he said, "is committed to the profit improvement of its customers." He recognized that this required a thorough knowledge and evaluation of customers' operations in order to locate costs that the system could affect positively and to identify product groups for which higher levels of sales could be achieved. He also recognized that this commitment changed the Johnson Drug Company's basic relationship with the retailer—it transformed the pharmacist from a customer to a client. In turn, the salesperson was responsible not only for the sale of products, but more important, for the management of the system, and thus for the management of profits at the retail level. Mr. Johnson wondered whether his salespeople were adequately prepared for and committed to systems selling and what actions he should take to help them adjust to and fulfill their new roles and responsibilities. Although some customers had accepted the new system, many had been slow to see its advantages. Recognizing that the company's future was likely to be heavily dependent on the success of the customer service system, Mr. Johnson was trying to formulate a strategy for both improving the system and speeding up its implementation.

Sales Force vs. Manufacturers' Reps.

National Hospital Supply is one of the leading manufacturers of patient hospital gowns. Currently, the company has ten district sales offices throughout the East and Midwest. Lauren Walters, Vice-President of Sales, wants to expand sales to several southern states. She is considering whether to reach the new market by expanding the company's sales force and establishing a new southern district office—or instead to use manufacturer's representatives.

Ms. Walters projects that sales in the southern market will be about 100,000 units if the company uses its own sales representatives. However, to achieve the projected sales would require that the company establish a new district sales office—which would involve fixed expense of about $150,000. From experience in other districts, Ms. Walters knows that the variable selling cost with company sales reps. is $2.00 a unit.

The other alternative is to rely on manufacturers' reps. That would eliminate the need for a district sales office. In addition, the manufacturers' reps. commission rate for this type of product is only 7 percent of sales. On the other hand, the manufacturers' reps. deal with a number of different hospital and medical products. They would not devote the same amount of effort to the sales of National products. As a result, the reps. would probably achieve only about 70 percent of the volume possible with company salespeople. With either approach, shipping expense would be about $1.00 per unit.

Ms. Walters has decided to use a spreadsheet to evaluate the two alternatives and to decide which would be the most profitable for National Hospital Supply.

a. *Given the unit sales forecast in the initial spreadsheet, which alternative appears to be best? Why?*

b. *Because National Hospital Supply has not been competing in the southern market, Ms. Walters is not certain how much faith to have in her forecast that the company sales force could sell 100,000 units. She does think, however, that the forecast is within 20 percent of what might actually be achieved. Show how contribution to profit for the two alternatives changes as the units sold by the company sales force varies between 80,000 units and 120,000 units (and, thus, as the units sold by the manufacturers' reps. is 70 percent of the corresponding sales force volume)? Discuss the implications of your results.*

c. *Given the other values on the initial spreadsheet, what unit sales volume would the sales force have to achieve to earn more profit contribution that the manufacturers' reps. would earn by selling 70 percent of that volume?*

d. *In the question above, would the sales volume at the point where the company sales force earns more profit than the manufacturers' rep. be higher or lower if National Hospital Supply found that it needed to pay the manufacturers' reps. an 8 percent commission to take on its line? Explain the implications of the result you report.*

Initial Spreadsheet

	Company Sales Force	Manufacturers' Representatives
Company Sales, Unit	100,000. *	
Manufacturers' Rep. Percent		70.
Manufacturers' Rep. Sales, Units		70,000.
Selling Price	20.00 *	20.00 *
Total Revenue	2,000,000.00 *	1,400,000.00
Gross Margin	900,000.00 *	630,000.00
Commission Percent		7. *
Commission Expenses		98,000.00
Shipping Expenses	100,000.00	70,000.00
Company Selling Expenses/Unit	2.00 *	0.
Company Selling Expenses	200,000.00	
District Fixed Expense	150,000.00 *	
Total Expenses	450,000.00	168,000.00
Contribution to Profit	450,000.00	462,000.00

RECRUITING SOURCES OF SALES REPRESENTATIVES

SOURCE	*COMMENT*
Within company:	
Office and factory employees	Company employees know the company and its products.
Sales force leads	Current sales people know their job requirements and can possibly identify candidates who could be a good job match.
Other companies:	
Competitors	Competitors know the customers and are familiar with your products.
Customers	Customers know your products and your company.
Suppliers	Suppliers know your company and your products.
Educational institutions	Primarily used when recruiting inexperienced people. Students are usually actively involved in a job search, and this provides an efficient place to screen large numbers of available candidates.
Advertisements	Produces the greatest number of candidates, but the average quality is sometimes lower.
Employment agencies	The agency is often more costly than other methods, but it will do a large part of the initial screening.
Voluntary applicants	These applicants are interested in your firm and probably possess a high degree of self-confidence, self-reliance, and initiative.
Part-time workers	These workers are easy to contact, readily available, and can work flexible hours. This is a good source for in-home selling.

To Train or Not to Train

Sunrise Cleaner Company's sales have been expanding rapidly in the past several years and are expected to continue increasing through the next decade In order to meet this demand, Sunrise has hired a number of sales representatives and expects to hire six to ten salespeople in the next year and more the following year. In the past, Sunrise hired only experienced reps; but recently Sunrise has been hiring recent marketing graduates. While the new grads don's have experience, they often have a high level of motivation and a good understanding of overall marketing planning. However, the less experienced reps. need more training—both on company policies and sales procedures—before they are effective in making sales calls.

Currently, Sunrise does not have a training program. The new hires just spend a week in a territory with an experienced rep. and then they are given their own territory. While this was satisfactory with experienced people, it is not adequate for the inexperienced people the company is now hiring.

Owen Haycox, the Vice President of Sales, has suggested to the President, Keat Markley, that the company institute a one- or two-week training program at company headquarters. Owen has suggested two options. The first option is to hire a staff recruiter/trainer who would spend half of his/her time on recruiting, and the other half on training. The new staff specialist would be paid a salary of about $60,000 a year—so the added cost with respect to the training responsibilities would be $30,000 a year.

The second option is to contract with an outside company that specializes in sales force training. That company should provide a specialist to set up and conduct a training program at a cost of approximately $20,000 per week.

Owen feels that a training program would increase the average annual sales per rep. a minimum of 5 percent—to $1,050,000 per rep. Keat Markley, however, is not convinced that the training would improve performance enough to justify the costs. He has asked Owen to consider all of the costs of a training program and report back to him.

Owen estimate the total training costs would include:

Cost of materials:	$100.00 per sales rep.
Cost of travel:	$250.00 per sales rep.
Cost of lodging:	$780 per rep. per week
Cost of renting a/v equipment:	$300 per training session

Owen has decided to use a spreadsheet to analyze the potential costs and benefits of instituting some type of training program. [Note: The initial spreadsheet shows a $30,000 cost for a staff trainer and no expense for an outside specialist. If you input a cost per week for using an outside trainer (for example, $20,000), the cost of the staff trainer will automatically change to $0.00].

a. *Based on the initial spreadsheet, would Sunrise Cleaner Company be better off implementing a training program using its own staff trainer or sticking with its current "no training" approach? What is the reason for your recommendation?*

b. *Would Sunrise be better off hiring an outside specialist (at $20,000 a week) or using a staff trainer to train 8 reps. for one week?*

c. *To train eight sales reps. for two weeks, would Sunrise be better off hiring an outside training specialist (at $20,000 a week) or using a staff trainer? Would your answer be the same if the outside specialist could produce the same 5 percent increase in sales with one week of training that the staff person would require two weeks to accomplish? Discuss the implications of your results.*

d. *Assuming that the company has decided to use an inside staff trainer, at what number of trainees hired does the improvement in contribution margin cover the cost of a two-week training program?*

e. *If a two-week training program with an internal staff trainer will increase the average sales per rep. by only 1 percent instead of 5 percent, should it be implemented?*

f. *At what percent increase in sales does the contribution margin cover the cost of two weeks of training with an internal staff person for 8 reps.?*

Initial Spreadsheet

	Without Training	With Training
Number of reps. hired	8. *	8. *
Weeks of training	0.	1. *
Average sales/rep.	1,000,000.00	1,050,000.00 *
Total sales	8,000,000.00	8,400,000.00
Margin before training	2,400,000.00	2,520,000.00
Cost/week for outside specialist	0.	0.00 *
Total cost for outside specialist	0.	0.00
Cost of staff trainer	0.	30,000.00
Total cost of materials		800.00
Total travel expenses		2,000.00
Total food and lodging expense		6,240.00
Audio visual equipment		300.00
Total training expense		39,340.00
Contribution margin	2,400,000.00	2,480,660.00

Compensation Incentives

Video Inc. sells TV's and video equipment to public schools and other state-funded organizations. Last year, the four sales reps. in Video's midwestern division generated a total of $1 million dollars in sales—or average sales per rep. of $250,000.00. The sales reps. were paid a straight salary based upon years experience with the company. In addition, the sales rep. with the largest sales earned a bonus of $1,500, and the rep. with the next largest sales earned a bonus of $500.00. Last year's salary for the reps. ranged from a low of $18,000 to a high of $28,000, with an average of $22,000. The average salary for a sales rep. within the industry is approximately $25,000/year.

Scott Pawlak, Video's sales manager, feels the present compensation policy does not motivate maximum sales effort. He believes that with a proper compensation incentive plan, sales for next year could increase by 10 to 20 percent. He believes that sales will remain level if a change is not made.

Scott is considering which type of compensation plan he should propose to upper management. He feels that a combination salary plus commission may be the best way to motivate his sales force. He is considering a base salary of $10,000 per rep. and a 5 percent commission for all sales up to the quota. For sales beyond quota, a sales rep. would earn a 10 percent commission. He also thinks that the current bonus policy may cause some resentment, and he plans to split the bonus dollars among the reps, assuming they all make their quotas. The following spreadsheet presents Scott's initial proposal for changes.

a. *If you were a Video, Inc. sales rep., which method of compensation would you prefer? Why?*

b. *If the average salary under the proposed plan decreases to $5,000 plus commission, which plan minimizes total company compensation costs? By how much?*

c. *If salary is set at $10,000 as proposed, what will happen to average compensation per rep. and total company compensation costs if the quota is set at $300,000 instead of $250,000? How would the company's sales reps. feel about the higher quota?*

d. *The president of Video, Inc. has asked Scott to rethink his proposal. He does not object to the $250,000 quota or the 10 percent commission for sales over quota. However, he has suggested that Scott do away with the bonus altogether, and he asked Scott to figure out what the highest percentage commission on sales under quota the company could pay so that total compensation would be no higher than last year. What commission percent would be involved?*

e. *Scott is worried that if the changes suggested by the president are implemented, the sales effort might not improve by 10 percent—or it might not improve at all. Do an analysis to show how average compensation per sales rep. and total company compensation costs might very for different percent sales increases ranging from 0 to 10 percent. Do you think that Scott's concern is justified? Explain your reasons.*

Initial Spreadsheet

	Proposed Plan	Current Plan
Sales:		
Last year's average sales/rep.	250,000.00	250,000.00
Percent sales increase	10. *	0.
Projected average sales/rep.	275,000.00	250,000.00
Compensation Plan:		0.00 *
Average salary/rep.	10,000.00	22,000.00
Company salary expense	40,000.00	88,000.00
Quota	250,000.00	0.
Commission percent up to quota	5. *	0.
Commission percent over quota	10. *	0.
Average commission/rep.	15,000.00	0.00
Total commission paid	60,000.00	0.00
Total bonus paid	2,000.00	2,000.00
Average compensation/rep	25,500.00	22,500.00
Total company compensation	102,000.00	90,000.00

Specific Elements in Motivation Mix

1. Basic compensation plan
   - Salary
   - Commission
   - Bonus payments
   - Fringe benefits
2. Nonfinancial rewards
   - Recognition awards, such as pins, trophies, certificates
   - Praise and encouragement from management
   - Job enrichment
3. Opportunity for promotion (this is both a financial and nonfinancial reward)
4. Sales contests
5. Sales meetings and conventions
6. Supervision in person, by mail, by telephone
7. Sales training programs — induction and continuation
8. Sales planning elements
   - Forecasts
   - Budgets
   - Quotas
   - Territories
9. Evaluation of salesperson's performance
10. Central management elements
    - Organizational structure
    - Management's leadership style

Methods of Compensation

Method	Advantage	Disadvantage	Best Used
Straight salary	Provides security and stability for reps Better for directing and controlling sales activities Ensures proper treatment of customers	Direct incentive is easily lost if not administered properly Represents a fixed cost Requires supervision to direct, control, and evaluate	For products that require a lot of pre-sale and/or post-sale service For building long-term customer relationships When supervision is available for new recruits For new territories For team selling For missionary sales
Straight commission	Provides a strong incentive Sales people have more freedom Acts as a screening method	Difficult to direct and supervise sales people Customers' best interests may be ignored Sales people's earnings may fluctuate widely	When a strong incentive is needed to attain sales For products that require little presale and/or post-sale service The sale is a one-time sale Adequate field supervision is not available Company is in a weak financial position Company uses part-time or independent sales people
Bonus	Added incentive Can be used for specific activities	Added cost May be seen as inequitable if not administered properly	To encourage above-normal performance of specific activities

Evaluating Salesperson Performance

Jim Narus, an assistant sales manager for Chemex Corporation, has been asked to make recommendations about the sales performance of Joe Brehob and Nancy Simmons, two sales reps. with similar territories in the company's eastern sales district.

Chemex tries to create territories so that each sales rep. has about the same amount of travel time and the same number of potential accounts (and sales potential in those accounts).

Chemex classifies potential customers as "A", "B", or "C" accounts. There are fewer potential "A" accounts in each territory (Nancy and Joe each have 35), but these customers purchase products that result in a gross margin that is about 40 percent of sales. There are somewhat more potential "B" accounts—but they result in a lower gross margin—about 30 percent of sales. Finally, there are about as many potential "C" accounts as "A" and "B" accounts combined—but they tend to purchase one price-competitive products that earn a gross margin of about 20 percent of sales.

In a quick check Jim found that Nancy and Joe both produced total sales of about $2,550,000. To get a better understanding of how each rep. generated these sales, Narus analyzed company records and call reports for each rep. to determine the total number of calls, number of active accounts, and total dollar sales volume for each different account type. With this information, he created a spreadsheet to compute the average sales per active customer, average sales per call, and gross profit for each type of account. Now Narus is trying to decide what the spreadsheet data means.

a. *Based on the initial spreadsheet, which sales rep. has a better sales record, Joe or Nancy? Explain your logic.*

b. *Joe Brehob made about 10 percent more calls on "A" accounts than Nancy. Consistent with that, he has about 10 percent more active "A" accounts than Nancy. On the other hand, Nancy has generated higher dollars sales with her "A" accounts. If Joe's calls on his "A" accounts had generated the same total sales to "A" accounts as Nancy's calls, what would have been the impact on Joe's total sales and total gross profit. What are the implications of these results?*

c. *Nancy made more calls on "B" accounts than Joe, but has fewer active "B" accounts. On the other hand, her average sales per active "B" account are higher. Would her contribution to profit from "B" accounts have been higher if she had produced about the same "average sales per active account" as Joe—but allocated her effort differently to get 40 active accounts rather than [illegible]? (Note that Nancy and Joe would have the same "ratio of calls to active "B" accounts" if Nancy had 40 active "B" accounts.) What are the implications or your analysis?*

d. *On average—across all the company's sales reps.—the ratio of calls to active "C" accounts is about 635, and the average sales per active "C" are about $32,000. If Joe had produced results similar to these with his 400 calls on "C" accounts, how many active "C" accounts would he have? Would his gross profit from "C" accounts be higher or lower? (Hint: one approach here is to determine the number of active "C" accounts that correspond to the 635 ratio of calls to active "C" accounts. Then, change the total sales figure).*

Initial Spreadsheet

	Joe Brehob	Nancy Simmons
Number of potential "A" accounts	35.	35.
Number of calls to "A" accounts	220.	198. *
Number of active "A" accounts	28. *	25. *
Total dollar sales to "A" accounts	300,000.00	360,000.00
Ration of calls to active "A" accounts	7.86	7.92
Average sales per call on "A" account	1,363.64	1,818.18.
Average sales per active "A" account	10,714.29	14,400.00
Gross profit of "A" accounts	120,000.00	
Number of potential "B" accounts	65.	65. *
Number of calls to "B" accounts	380.	400. *
Number of active "B" accounts	38.	30. *
Total dollar sales to "B" accounts	450,000.00	490,000.00
Ration of calls to active "B" accounts	10.00	13.33
Average sales per call on "B" account	1,184.21	1,225.00
Average sales per active "B" account	1,184.11	16,333.33
Gross profit of "B" accounts	135,000.00	147,000.00
Number of potential "C" accounts	100.0	100.
Number of calls to "C" accounts	400.	320.
Number of active "C" accounts	68.	50.
Total dollar sales to "C" accounts	1,800,000.00	1,700,000.00
Ration of calls to active "C" accounts	5.88	6.40
Average sales per call on "C" account	4,500.00	5,312.50
Average sales per active "C" account	26,470.59.	34,000.00
Gross profit of "C" accounts	360,000.00	340,000.00
Total calls to all accounts	1,000.	918.
Total number of active accounts	134.	105.
Total sales	2,550,000.00	2,550,000.00
Total gross profit	615,000.00	631,000.00

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Personal Selling

THE IMPORTANCE OF PERSONAL SELLING

As a method of promotion, personal selling of your product should have major consideration. Unlike other methods of promotion, including advertising, publicity releases, contests, and sweepstakes, personal selling involves face-to-face communication and feedback. That gives it a tremendous edge.

THE ADVANTAGES OF PERSONAL SELLING

There are six advantages that personal selling has over other promotional methods. These are as follows:

1. *More flexibility.* Your salespeople can vary and tailor the sales presentations they make depending upon the customers' needs, behavior, motives, and special situations.
2. *Immediate feedback.* Salespeople can vary their presentation and approach depending upon the reaction as they proceed.
3. *Market pinpointing.* Much advertising is wasted because you pay for sending your message to individuals who may be readers or viewers of a vehicle but are not real prospects for your goods or service. With face-to-face, personal selling, greater pinpointing of the target consumer is possible than with any other means of promotion.
4. *On-the-spot sales.* Personal selling is the only method of promotion with which you can sell the product and receive money immediately.
5. *Not just sales.* Your salespeople can perform other necessary services while making sales calls. For instance, they can do customer research, relay customer complaints, develop credit information, and verify the reality of customer prospects.
6. *No time limit.* An advertisement gets read. It either does its work or is disregarded. But until they get thrown out, your salespeople can keep trying to make the sale.

THE BIG DISADVANTAGE OF PERSONAL SELLING

Face-to-face selling has one single disadvantage, and it is a big one. That is: its high cost. The cost of recruiting, motivating, training, and operating a sales

SOURCE: William A. Cohen. *The Entrepreneurs and Small Business Problem Solver*, "Personal Selling," Chapter 13. John Wiley & Company, New York, 1990.

force is not low. Finding the caliber of people necessary to do the job may be extremely expensive. As energy costs have skyrocketed, so has the cost of each individual sales call. In many parts of the country today, a single sales call costs $150 or even more.

Because of this major limitation, sales forces and face-to-face selling must be used wisely and efficiently. This chapter will show you how to accomplish this.

WHAT DIFFERENT SALES JOBS DO SALESPEOPLE DO?

Salespeople do a variety of different types of sales jobs. Some sales jobs simply require order taking rather than actually persuading an individual to buy something. Others require the sale of complicated, sophisticated, and expensive machinery. The different sales jobs are sometimes placed into seven groups.

Group 1: Product delivery persons. With this type of sales position, selling is actually secondary to delivering the product, be it milk, fuel oil, soft drinks, or whatever. This type of salespeople rarely originates sales. Therefore, a persuasive personality is not required, although an individual who performs good service and is reasonably pleasant may ultimately increase sales over a period of time.

Group 2: Inside order-takers. Inside order-takers are salespeople who generally work inside, behind retail counters. In this case, and in the majority of situations, the customer has already entered the store in order to buy. These salespeople primarily service the customer. Sales can be increased by the order-taker's helpful attitude, but usually not significantly so.

Group 3: Outside order-takers. Outside order-takers are salespeople who work in the field outside of the store. Their job generally involves calling on retail food establishments. They do little or no selling, but, like the salespeople in the first group, are primarily delivery people.

Group 4: Missionary salespeople. The primary job of missionary salespeople is to build good will while performing promotional activities or providing other services to a customer. Examples of these types of salespeople are those detail men and women who service physicians and the pharmaceutical industry. They may or may not be expected or even permitted to solicit orders.

Group 5: Technical salespeople. Technical salespeople such as sales engineers don't need persuasive powers so much as they need technical, in-depth knowledge of the product or service which they can display when dealing with the customer. No matter how persuasive, a technical salesperson cannot be successful without this technical background. Therefore, technical knowledge is the foremost trait required for salespeople in this group.

Group 6: Creative sellers of tangibles. These are salespeople that must sell tangible products through creative selling. That is, they must actually persuade people to purchase. Now, we are getting into a more difficult sales job since the customer may not be aware of a need for the product or how the product can satisfy his or her needs better than other products or services he or she is currently using. The creative seller may sell a product which is also technical; however, in this case persuasiveness and other sales traits are as important as or more important than the technical knowledge. Sellers of tangible products sell everything from encyclopedias to airplanes.

Group 7: Creative sellers of intangibles. This is probably the most difficult of sales positions. Not only must the salesperson be persuasive and be able to sell, but he or she must sell a product which is not easily demonstrated and cannot be shown to or touched by the customer. Products that fall into the intangibles category include such items as insurance, consulting services, and advertising.

Knowing what kind of salesperson you want is very important. If you get the wrong type for your sales job, you will either fail to get sales or waste money on qualifications you do not need.

THREE KEYS TO IMPROVING SALES BY DEVELOPING A SUPERIOR SALES FORCE

Your sales force can do a poor, mediocre, or terrific job in selling for you. It all depends on you and your ability to develop your sales force. Here are three keys to success:

1. *Selection.* You've got to find the best salespeople. It is a challenging problem, but if you succeed, it will make a major contribution to the overall sales ability of your organization.
2. *Training.* Once you have superior people, your superior people must be given the correct training to enable them to maximize their sales ability.
3. *Compensation.* Compensation plans depend on many factors. They are critical in sales because compensation is what motivates your salespeople and makes them perform. Performance cannot be measured simply in terms of sales volume. While the importance of sales volume cannot be overemphasized, other factors may be very important to your organization. These factors may include service, providing information to customers and creating good will.

Selecting Salespeople

To begin the selection process, you must identify what type of salesperson you need. Next, you must establish a job description and specification. Armed with a job description and specification, you can search for sources of available salespeople and finally implement your selection system.

Sources of Salespeople. While you can use sources described earlier in your recruiting and selection of a sales force, salespeople fall into a special category. For example, a research study in the insurance industry revealed that there were four primary sources for prospective insurance salespeople:

1. Salespeople personally known by the hiring sales manager
2. Individuals with influence
3. Individuals selected from the present sales force and given new geographical territories or sent to new locations
4. Salespeople recruited through direct mail advertising

Which of these groups do you think did best? Those recruited from the present sales force did five times as much business the first month as those recruited cold through direct mail advertising. Also of interest is the fact that it took six times as long to complete negotiations and start the new sales recruits doing business from groups 3 and 4 as it did to start those from groups 1 and 2.

Other sources of salespeople which you should consider in your sales force recruiting are as follows:

1. *Those working for you who are not currently in sales.* Be alert for the bright, persuasive individual with a "sales-type personality" who is interested in selling. Such an individual may be moved from another position in your company to become very effective for you in a sales position.

2. *Word of mouth from present customers.* Your current customers may assist you by recommending effective salespeople.

3. *Local schools and universities.* New graduates are always looking for opportunities, and sales is a great way to start. If you have such an opportunity, schools and colleges will assist you in finding candidates from among their students.

4. *Recommendations from your present sales force.* Your present sales force frequently comes in contact with other salespeople from other companies and in other industries. They may have some excellent recommendations for new recruits.

The Six Elements of a Sales Force Selection System. The six elements of your selection system are as follows:

1. Application forms
2. References
3. The interview
4. Intelligence and aptitude tests
5. Physical examination
6. Field observations of candidates

While application forms, references, and interviewing have all been discussed in an earlier chapter, it is important to realize that here the most important qualities in a candidate are his or her readiness and ability to sell. Therefore, you should not hesitate to emphasize this aspect, especially in checking on references and in the personal, face-to-face interview.

In fact, in order to make the personal interview more objective, some interviewers of potential salespeople use a form having a semantic differential intensity scale to note differences. In this manner, various attributes can be more or less objectively rated immediately through judgment. A typical judgment chart is shown in Figure 13.1.

As recommended in an earlier chapter, the prospective candidate should be interviewed by more than one individual in your firm so that opinions can be compared. This is especially true when seeking salespeople who must have considerable persuasive abilities, who must actually inform and persuade people regarding their needs and wants and the ability of the product or the service to fulfill them. First, you want some objective opinion about this ability. But second, if the candidate has it, you don't want to miss some key point because of his or her ability to persuade you.

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1. General appearance

poor 1 2 3 4 5 6 7 8 9 excellent

2. Dress

poor 1 2 3 4 5 6 7 8 9 excellent

3. Verbal communication

poor 1 2 3 4 5 6 7 8 9 excellent

4. Manners

poor 1 2 3 4 5 6 7 8 9 excellent

5. Persuasiveness

poor 1 2 3 4 5 6 7 8 9 excellent

6. Imagination

poor 1 2 3 4 5 6 7 8 9 excellent

7. Attitude toward work

poor 1 2 3 4 5 6 7 8 9 excellent

8. Intelligence

poor 1 2 3 4 5 6 7 8 9 excellent

9. Ability to sell himself or herself

poor 1 2 3 4 5 6 7 8 9 excellent

10. Overall handling of interview

poor 1 2 3 4 5 6 7 8 9 excellent

Figure 13.1. A semantic differential intensity scale for use in interviewing potential sales personnel.

Tests, physical examinations, and field observations have not been discussed previously for other types of jobs. They are particularly important, however, for sales positions. Because the sales job itself may require considerable field work, good health and personal appearance may have a direct bearing on success or failure. Therefore, if the job is at all demanding physically, a physical examination should be required prior to hiring. There are types of intelligence and aptitude tests for selling that were extremely popular in the late 1950s and early 1960s. They are currently controversial since they are far from perfect and many eliminate a few excellent candidates while allowing some poor candidates to get through. However, psychological testing will eliminate candidates who are totally unsuited for selling. Administering these tests has one additional advantage. It will impress the potential employee of the importance that you place on the sales position. This can have a motivational effect on the candidates you hire.

Remember, be very careful with psychological testing. Have a professional evaluate the results. You can find such psychological testers listed in your yellow pages of the telephone book under Aptitude and Employment Testing. Do not attempt to purchase the test and evaluate the results on your own. One firm that did this eventually discovered that candidates it hired who got top scores on a test were much poorer performers than those who scored less well.

For some very important positions, on-the-job observation may be necessary to determine whether the salesperson is suitable or not. This can be done through a conditional hire. An acceptable performance under personal observation is made one of the criteria for permanent hire.

Do's and Don't's of Salespeople Selection

Kenneth Grubb, president of Kenneth Grubb Associates of Princeton, New Jersey, developed the following list of do's and don't's for selection of salespeople.[1]

In thinking about tips on selecting salesmen, look first at the "Do's."

[1] Kenneth Grubb, *Tips on Selecting Salesman MA No. 196*, Small Business Administration (1976).

Do—Write a Job Description

The starting point in selecting salespeople is a job description. You should, if you haven't already done so, spell out the duties and responsibilities required for your selling job.

This description should define the type of selling that the job requires. Do you sell a product, a service, or a combination of the two? Selling a service, or a product and its related service, often requires your salesman to have a technical background or an aptitude for absorbing technical information.

As a counterpart to the job description, main specifications should also be prepared. Spell out in as much detail as you can the abilities and qualities which an applicant needs to be successful in selling your product or service. There is no substitute for knowing what you are looking for.

Do—Select for Initiative and Perseverance

Initiative and perseverance are vital to successful selling. Salespeople have to be self-starters because they are among the least supervisable of employees whether "on the road" or on the sales floor.

They either make themselves work, or they don't. At best, evaluation and incentive plans are a poor substitute for spontaneous self-drive, and self-policing. You or your sales manager, if you have one, cannot generate initiative in a dead battery.

How much of a self-starter you need depends on the job to be done. If your salespeople check into the office each morning, for example, they can be reminded, if necessary, to call on particular accounts. But if they are on the road all week, they have to remind themselves.

Do—Look for Reliability

An applicant salesman must be reliable because you will have to trust him to do his job. He also will have to gain the confidence of customers. The test of his reliability is their reactions to him. It boils down to his being a "straight shooter."

"Straight shooting" starts at home. In encouraging salesmen to do the right thing, three rules of thumb may be useful. First, the owner-manager should not fool himself about what his policies are. For example, if he has to withhold certain information for competitive reasons from his salesmen, he should not kid himself or them by pretending that they have all the information.

Second, the owner-manager should keep in mind that any failures in ethics which a salesman possesses will usually be turned first against his employer. If a company condones shady practices when they favor the company, the salesman is likely to use this attitude as license to put his own interests above those of the company.

Third, to many customers and to the public, almost the only "picture" they get of a company is the salesman whom they see. Moreover, they often see through a salesman more quickly than either the salesman or his company may believe. If he is not reliable, customers may realize it before the owner-manager does.

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Do—Seek Mental Ability

The amount of brainpower which a salesman needs depends on the selling job. Some jobs require only enough mentality to memorize sales talks and put one foot in the door. Other jobs require a high degree of imagination, intelligence, and sometimes technical education.

In many small companies, the difference between a large and a small sales volume lies in the salesman's ability to understand quickly the key points in a customer's problem and to come up with an imaginative solution. Other small companies build a big sales volume on the salesman's ability to see new ways to redesign particular products. Such ingenuity enables the owner-manager to get a jump on his competitors. In selecting a salesman, make sure his mental ability matches the requirements of selling your product.

Do—Look for Willingness to Travel

If extensive travel is part of your selling job, make sure that the applicant is willing to travel. If he doesn't know it already, make him aware that the comforts and pleasures of normal home and social life are often impossible in a travelling job.

Your objective is to forestall trouble. If the wife wants her husband at home, or he wants to be with his family, all sorts of problems ensue.

On the other hand, some men like travel. They don't like the routine of calling on the same customers over short periods. They like to be away because it's so nice to come back. They like the attention they get from their families when they return from their trips.

When this is the case, you're lucky. This type of "travel-happy" salesman doesn't need the "diversions of the road" which can tarnish a company's reputation.

Do—Look for Willingness to Take Punishment

Many salesmen are paid to take punishment from which other employees would shrink. They receive rough and even rude treatment from the hard-to-see prospect, not to mention his secretary and other office help with instructions to keep salesmen away from his door.

Sometimes a salesmanager hands out, in a different way, as much punishment as the salesman receives from customers. At best, the push for large quotas turns into a battle of wits between the salesman and his boss.

In some companies, the punishment includes the risk of alcoholism. The owner-manager feels—not always correctly—that his salesmen must drink freely with all customers. When, and if, this is part of the selling job, applicants should be told.

Do—Select Emotionally Balanced People

Selling is often a sort of schizophrenic job. The demands and pressures split some men in two.

Most salesmen have to appear cheerful and unworried during frequent discouragements. For example, they have to be polite to a rude prospect when they prefer not to be.

Even with the most pleasant customers, the salesman often has to repress his desires in their favor. He may have to lean over backwards to satisfy some customers. Often he has to listen when he prefers to talk. A liking for people helps to cushion the pressures. When a salesman likes people, it is easier for him to put his preferences in the background when he needs to.

The pressures on salesmen are bad enough when times are good. They can become terrific when there is a temporary drought in sales. The boss may blame him and push for sales—sometimes where none are to be had. To add insult to injury, sometimes the factory may let him down on delivery dates he has promised customers. In addition, some customers—often big volume accounts—may jump on the bandwagon. They seem to sense that the salesman is "down" and try to browbeat him.

Under such topsy-turvy pressures, only an emotionally balanced person can survive. If a salesman is inclined to upset easily, he may start acting less than rationally. Or he may quit his job, and you lose your investment in him.

Whether the pressures are heavy or light, the effective salesman has to surmount them. Preoccupation with his own problems make him insensitive to the unspoken shifts in attitudes and interests of his customers. Also he needs to be emotionally mature to handle success—to resist the temptation to coast during good times.

In selecting salesmen, the "don't's" are as important as the "do's." A few of the negative aspects follows. They may remind you of others that are peculiar to your situation.

Don't—Pick Only for Selling Skills

Contrary to folklore, skills and experience in selling may be the last thing to look for in selecting a salesman. If you already have a successful sales organization, your best bet is probably to select people who can be trained in your methods. When the candidate's other qualifications (for example, he knows your industry and the needs of customers) are sound, he can usually be taught the necessary selling techniques fairly quickly.

On the other hand, when you hire an "experienced" salesman, you may be buying trouble. He may have to unlearn old ways before learning new ones. "Experience" includes bad practices, tricks, habits, and abuses which may handicap him in learning your ways of selling. For example, he may be in the habit of overstocking customers.

In a fairly new company, the owner-manager may have to hire experienced salesmen because no one in his company really knows how to sell. If such is your case, make sure that you select salesmen whose skills and experience are sound for your type of selling job.

Don't—Pick for Control of Accounts

Some owner-mangers are tempted to hire men from competitors on the theory that such salesmen bring business with them. If you are thinking in that direction, keep in mind that there is a strong tendency to exaggerate the extent to which salesmen can "take customers with them" and hold such business.

Don't—Pick for Trade Secrets

Some companies hire a competitor's salesman for the information they hope to gain rather than for the selling the man can do.

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The owner-manager who hires with the expectation of gaining trade secrets or accounts should keep one fact in mind. That fact is: Benedict Arnolds are always available to the highest bidder. Money draws them from one company to another.

Don't—Pick Only for Wide Acquaintance

The owner-manager who hires a salesman because he is widely known among potential customers may be kidding himself. He may be the kind of salesman from whom customers run if they see him coming. His faults may outweigh the advantages of knowing the prospects you are trying to reach. Worthwhile prospects are ready to listen to salesmen who show promise of helping them to have fewer headaches and make more money.

Don't—Expect the Impossible

Some owner-managers expect their salesmen to do the impossible. They do little planning and preparation and expect the salesman to "steam roll" his way to a large sales volume. Even the best salesman is handicapped when the home office makes faulty marketing plans, such as insufficient advertising or a tight billing policy.

Often, when an owner-manager expects to get by with little or no planning, he picks men who have strong compulsions to get ahead fast. "We pay a high commission," he says, "and expect top results." The salesman drives himself, often sacrificing his personal life, to make such big money. Some individuals crack under such pressure. Addicted to big money, others change jobs for greener pastures.

In this same vein, an owner-manager should not expect his salesmen to do what he wouldn't do himself. For example, he would not himself be a doormat for customers to wipe their feet on. Nor would be deliberately lie to customers.

It is important also to caution your men about leading customers to expect the impossible. For example, a salesman should not sell more than you can ship. Nor should he "oversell" a customer on the benefits of your products.

Finally, in not expecting the impossible, if you hire a relative as a salesman, do it with your eyes open. It is one thing if he has proved his ability by selling for another company. It is another thing if his most prominent talent is kinship with you.

Intentionally Suggestive

These do's and don't's are suggestive. You may think of others that are pertinent to your situation.

Keep in mind the importance of doing your own thinking about the kind of salesmen you need. They develop procedures that will help in selecting individuals who meet the requirements of your situation.

In selecting salesmen, there is always the question: How do you tell whether the candidate is qualified? How does the owner-manager determine whether the candidate has: initiative, reliability, mental ability, and other requirements for the job?

You have to make a judgment based on what you can learn about the candidate. His application blank gives you some information. You get additional facts and impressions about his past performance by talking at length with him. Sometimes you may test him by asking critical questions about your industry and its customers. Or you might use tests which are prepared by firms that specialize in their preparation.

Above all, it is important to check his references before making a decision. Use the telephone or a face-to-face contact because a former employer may be too busy, or reluctant, to express himself freely in writing.

Training Salespeople

There are four main areas in which training will contribute to success of your sales force regardless of the type of selling in which they are engaged. These four main areas are as follows:

1. Knowledge
2. Work habits
3. Selling skills
4. Attitude

Knowledge. A salesperson must have knowledge of the product, knowledge of the company, knowledge of the sales environment, and knowledge of the entire environmental situation in which he or she is operating. Only with knowledge can the sales individual best explain the product or the service to the customer.

Work Habits. The salesperson's work habits are responsible for great success stories as well as great failures. An individual's work habits can also spell the difference between sales success and failure in your company. With sales calls as expensive as they are, a salesperson who makes few calls a day can ruin you in short order. Making calls is a matter of mental attitude and selling work habits.

Selling Skills. There are so-called "natural salespeople." But, while some individuals may be naturally better suited for selling than others, sales skills can be learned and mastered by many people. These skills include establishing rapport and empathy, making effective presentations, handling objections, closing, and so forth.

Attitude. A critical factor in performance in selling is attitude. In fact, it is so important that many books by successful salespersons emphasize this one factor. Elmer G. Leterman, who sold over $300 million worth of life insurance policies more than 30 years ago, said in his book, *The New Art of Selling*,[2] that the first law of creative success is to quit looking outside ourselves for solutions to our problems. In other words, it is the salesperson's attitude that spells success or failure.

Methods of Training Salespeople. There are several methods which you can use to train your salespeople to become sales "superstars."

[2] Elmer G Leterman, *The New Art of Selling*, Harper and Brothers, New York (1957).

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1. *Indoctrination training.* With indoctrination training, you give your salespeople basic orientation on the sales job and how it is done. In many cases, your sales manager will accompany the new salesperson to help him learn the job through observation. As the salesperson gets more and more experience, he or she takes over more and more of the job, and finally the manager backs off entirely and the salesperson is on his or her own.

2. *Job rotation training.* Job rotation training is generally for larger companies. A salesperson spends a certain amount of time in a variety of jobs which may include positions in the factory, in production, in research and development, in the office, and in a sales branch. This way he or she gets a better idea of how the salesperson's job fits into other company operations.

3. *In class training.* When field experience cannot be easily given, or sometimes even if it is, classes can be conducted to train salespeople how to do their job. This training is particularly effective for providing new information on products, the company, the market, and so forth. The classroom can also be used for motivation. Also, selling skills can be taught and experienced through various types of role-playing. However, in-class training is time consuming. In a very small company, extensive classroom training may take too many of your resources. Even so, one multimillion-dollar executive recruiting operation started with a solid week of training for everyone hired and maintains this policy to this day.

4. *Sales meetings.* Sales meetings act as a training ground for new employees who are salespeople as well as older ones. In sales meetings, they can trade experiences and build friendly competition. You can also give additional or new training to help salespeople increase their job effectiveness.

5. *Seminars.* Many training companies around the country have training programs especially designed to train new salespeople. There are many training organizations, both national and local, which can provide training needs for your salespeople. These companies can be located in your telephone book in the yellow pages under Training—Sales or Sales Training headings. An investment of this type can pay off tremendously in the effectiveness of your new sales employees.

Compensating the Salesperson

The compensation plan for salespeople is particularly important, and is has definite aims. These aims include encouraging the highest volume of sales for your most profitable items while at the same time providing motivation and incentive for your salespeople to work harder. Specifically, your compensation plan must have objectives both for your company and for your salespeople.

Objectives for your salespeople:

1. To receive compensation in direct proportion to sales accomplishments
2. To be compensated for time spent with the customer which does not directly result in sales, such as "missionary" work and service to the customer.
3. To have provisions for security, retirement, and possible seasonal or other slumps in selling
4. To receive compensation on a par with what could be earned selling for other companies or for other lines of products or services

5. To have a sense of *esprit de corps*, not only in the sales force but with other employees.

Objectives for your company:

1. To motivate and inspire your salespeople to increase sales
2. To encourage your salespeople to sell high-profit items
3. To enable your firm to maintain the maximum of profit consistent with other factors including compensation for your salespeople which meet all criteria listed as objectives
4. To maintain the maximum control possible over your sales force and your salespeople's activities
5. To encourage cooperation among your salespeople and with other functional areas and people in your company
6. To encourage company *esprit de corps*

The Three Basic Means of Compensating a Sales Force. There are three basic means of compensating a sales force. These are: (1) salary, (2) commission, and (3) combination plans. Each has its advantages and its disadvantages.

With a *salary* plan, you have an arrangement whereby you pay a defined amount of money, weekly, monthly, or annually, in return for whatever work is required by the sales force. It has the following advantages:

1. It is easy for the company to budget and administer.
2. Since the compensation is guaranteed so long as the salesperson works for you, it allows for the greatest amount of control over your sales force.
3. It is generally easier to recruit salespeople for this type of compensation plan.
4. Since compensation is guaranteed, extravagant promises or overselling by your salespeople will be discouraged.
5. It is easier to arrange for your salespeople to accomplish nonselling activities since their "time is not money."
6. The system encourages the maximum cooperation among salespeople and other members of your company.
7. It is easier to transfer salespeople to other territories using this plan.

However, this compensation plan also has disadvantages:

1. There is a lack of incentive for high sales.
2. Salary is a fixed cost unrelated to sales revenue.
3. So-called "super" salespeople are rarely attracted by a straight salary since they can make much more money on a commission system.
4. If business activity is declining, it is very difficult to adjust salaries. You generally are forced to discharge some of your salespeople. This means morale problems and additional costs for training and hiring when business conditions improve.
5. Salaries must be paid whether or not there are sales.

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Straight salary plans are usually most useful under any of four conditions:

1. For compensating new salespeople who are not yet ready to assume their full responsibilities
2. For compensating missionary salespeople whose duties are not to make an immediate sale, but whose work eventually leads to sales over a period of months or even years
3. For opening new territories in which you have not formerly been selling
4. For sales of sophisticated or technical products requiring lengthy negotiations

A compensation plan using sales commissions is simply an agreement on your part to pay the salesperson a percentage of each dollar of a product or service sold. In such a plan, the salesperson is usually entirely on his or her own. A successful salesperson can make a lot of money. An unsuccessful salesperson makes nothing. In some states the straight commission plan has been modified since minimum wages must be paid. However, the basic principle is the same. The amount earned is directly related to sales made.

Advantages of the commission plan are as follows:

1. A company with limited capital can fully staff its sales force without high overhead commitments.
2. This method provides direct incentive for high sales.
3. A commission plan attracts more aggressive and persuasive salespeople since these are the only ones that can make it work successfully.
4. The costs of sales are automatically reduced if and when sales decline.

Naturally, the commission plan has its disadvantages, although at first it may appear that the system is absolutely ideal for any company. The disadvantages of the commission system of compensation are as follows:

1. There is a great deal of difficulty getting salespeople to devote time to sales tasks which may be important to your company but for which no commission is paid.
2. There is great danger in overselling the customer and possibly incurring customer ill will.
3. There is a great deal of bookkeeping involved.
4. There is potentially greater difficulty in recruiting.
5. There is less cooperation within the company among salespeople and among other functional areas.

Because of the potential difficulties with straight commission plans, modifications have been made. Here are the primary changes that have been introduced.

With the *commission against draw* modification of the straight commission, a salesperson is allowed to draw a certain amount of money ahead of his or her sales against commissions that will be earned later. This sales advance or draw allows the salesperson to have living expenses even during a slump. As soon as the first commissions are earned, they are used to pay the draw that the salesperson has already been advanced.

With the *modified commission scale*, a commission rate is established by a series of steps. It is frequently used with the draw in order to help the salesperson pay off the money advanced as rapidly as possible. In order to do this, a higher commission may be paid on the first sales until the money advanced is covered; then the commission rate may drop to lower levels or steps depending upon the scale that is constructed. Of course, this is also advantageous to the company if sales are greater than anticipated since the commission will be less on the higher amount of sales. The approach, however, does have a disadvantage; some companies take the opposite tactic and increase commission percentage for higher amounts of sales. In some cases this increase is effected through a bonus plan, a bonus being paid for effort resulting in increased sales or sales above a certain set goal or quota. Let us say that you are paying 10% commission and have established the quota for salespeople of $20,000 in sales per month. The bonus would come into play if this $20,000 per month were exceeded. Perhaps you would offer an additional 5% bonus for sales exceeding the quota. Thus, if a salesperson only met this quota, he or she would receive $20,000 times 10% or $2,000 commission. But for sales of $30,000 a month, your salesperson would receive $30,000 times 10% or $3,000, plus an additional 5% of the $10,000 difference between $20,000 and $30,000, or an additional $500. Therefore, the total amount of compensation would be $3,000 plus $500 or $3,500.

Commission plans work well under the following circumstances:

1. Where considerable incentive and motivation are needed to get high sales
2. Where very little missionary work or other sales assistance that does not have to do with closing out a sale is required
3. Where the company is not so strong financially that is can afford large amounts of overhead to compensate salespeople whether or not sales are made
4. Where salespeople can operate independently

Combination plans offer a fixed compensation element plus a variable element made up of a commission on sales or a bonus based on volume. In combination plans, the fixed portion is a salary. The variable portion is used to motivate sales and to achieve many of the benefits of the commission type of compensation plan. The variable element of the combination plan may include payments on sales volume, payments on a performance evaluation, a combination of volume and a performance evaluation, or some type of bonus.

The advantages of combination plans are:

1. Flexibility in dealing with the overall job of selling the company's product or service
2. Flexibility in making changes in territory assignment or assignment of customers
3. Choice among the various factors that will motivate the salespeople to work independently to achieve high sales
4. Ability to group salespeople for team selling situations of major products while applying direct incentive as well as salary compensation to motivate this performance

The disadvantages of combination plans are:

1. Complexity in construction of the plan
2. Amount of time required for administration and bookkeeping
3. Difficulty of explaining the plan to salespeople
4. The need for constant review to be sure that the factors that are being used as part of the overall compensation are doing what they are supposed to be doing

The combination plan can work well for many companies, but in order to use it you must balance the best features of the salary plan and the commission plan while at the same time trying to eliminate their disadvantages. This isn't always easy and requires considerable thinking and planning ahead of time. It should be used when (1) a complex selling task is to be rewarded, and (2) factors other than volume are considered important and yet an incentive element is definitely required.

HOW TO MEASURE THE PERFORMANCE OF YOUR SALES PERSONNEL

Until you know how your sales force is performing, you have no way of making meaningful changes which will improve performance. Therefore, it is necessary to develop means of evaluation. In general, this is done through two means: judging quantitative factors and judging qualitative factors. Quantitative factors generally are easier since they are specific and objective. Sales volume either goes up or it does not. You see the results in black and white. Qualitative factors must rely much on subjective judgment. However, in many types of sales operations, qualitative factors must be considered because of the importance of their influence on company objectives.

Quantitative Factors

The following are factors in sales that are useful in comparing quantitative performance:

1. Sales volume segmented as to areas, products, customer groups, and so forth
2. Sales volume as a percentage of a predetermined quota or calculated territorial potential
3. Gross profit
4. Sales that may be segmented by number of orders, average size, or similar factors
5. Closing ratio (a ratio of the number of sales closes divided by the number of calls made)
6. Percentage of new accounts sold
7. Number of new accounts sold
8. Number of new accounts sold divided by number of new accounts called on

Qualitative Factors

The following are factors which should be considered in evaluating your sales force on a qualitative basis:

1. Analytical ability
2. Company knowledge
3. Competition knowledge
4. Customer relations
5. Decision-making ability
6. General attitude
7. General knowledge of sales environment, the customer, legal aspects, and the product
8. Health
9. Organization and management of time
10. Personal appearance
11. Personality
12. Preparation for presentations and sales calls
13. Product knowledge

HOW TO IMPROVE YOUR SALESPERSON'S PERFORMANCE

Raymond O. Loen of R. O. Loen Company, Management Consultants of Lake Oswego, Oregon, developed the following guide to bringing about improvements in sales performance in three steps.[3] These three steps are planning, measuring, and correcting. Use this to help you improve your salesperson's performance.

Planning

Get the sales representative's agreement about goals to attain or exceed for the next year:

1. Total profit contribution in dollars
2. Profit contribution in dollars for:
   Each major profit line
   Each major market (by industry or geographical area)
   Each of 10–20 target accounts (for significant new and additional business)

Get the sales representative's agreement about expenses to stay within for the next year:

1. Total sales expense budget in dollars
2. Budget in dollars for: travel, customer entertainment, telephone, and other expenses

[3] Raymond O. Loen, *Measuring Sales Performance MA 190*, Small Business Administration (1978).

Measuring

Review at least monthly the sales representative's record for:

1. Year-to-date progress toward 12-month profit contribution goals
2. Year-to-date budget compliance

Correcting

Meet with sales representatives if his or her record is 10 percent or more off target. Review the number of calls made on each significant account plus what he or she feels are his or her problems and accomplishments. In addition, you may need to do some of the following to help improve performance:

—Give more day-to-day help and direction.
—Accompany on calls to provide coaching.
—Conduct regular meetings on subjects which representatives want covered.
—Increase sales promotion activities.
—Transfer accounts to other sales representatives if there is insufficient effort or progress.
—Establish tighter control over price variances allowed.
—Increase or reduce selling prices.
—Add new products or services.
—Increase financial incentives.
—Transfer, replace, or discharge.

WHETHER TO USE SALES TERRITORIES

A sales territory is a geographical area in which a salesperson does his or her business. His or her activities may be limited in certain areas or may not be. Further, he or she may or may not have an exclusive over a certain area. Establishing sales territories has the following advantages:

1. It fixes precise performance responsibilities.
2. It helps a salesperson to organize his time.
3. It helps maximize customer service.
4. It cuts down on overlapping of sales efforts.
5. It fosters competition and comparison among salespeople in different territories.
6. It helps equalize opportunities in various territories among different salespeople.
7. It makes for adaptation of certain background personality factors and desires of salespeople to their customers.
8. It helps control the overall sales operation.
9. It ensures that all of your salespeople have ample opportunities to sell.
10. It helps maintain total and efficient coverage of your entire market.

However, in certain circumstances, it is better not to limit your salespeople to distinct territories. This may be true if you don't have sufficient salespeople to cover all the territories that might be available, or if certain of your salespeople seem to operate better when they are freewheeling, and maybe you can get best results out of all of them if you do not establish territorial rights. Sometimes you will not be able to establish territory divisions fairly. In this case it is better not to establish them at all. And in some industries, such as executive recruiting, for example, it may make sense not to establish territories in a geographical sense but rather to group your salespeople depending upon the functions of the various individuals whom they are trying to recruit. Finally, if you are introducing a new product and you want to saturate the market as quickly as possible, the restrictions of sales territories may slow some of your people down.

HOW TO ESTABLISH SALES TERRITORIES

1. If you're going to establish sales territories, it is important first to establish them in a fair fashion. Therefore, there must be some basis of comparison. Usually, a market index or indices relating to the product or the service that you are selling are selected. These indices are usually based on one or more demographic factors, such as income, which would represent buying power or segments of the population which would be interested in the product or the service. For example, if you were selling a high-priced automobile, how many families in the area or the potential area which would constitute a geographical territory could afford such a car? Or, if you had a product that went in the home, how many homes are in the territory which uses such a product? Sometimes a combination of different factors is used with a weighting system applied depending upon the relative importance of the factor. In this fashion, territories are divided with indices resulting in approximately the same sales potential.

2. The next problem is to determine how wide an area a salesperson can handle. Factors such as distance, call frequency, as well as numbers that a salesperson can process must all be considered. This will impact on the size of the different territories that are divided, and will also let you know how many salespeople you will need to cover a particular area.

3. At this point you may begin allotting the various territories based on market potential to salesmen. Various adjustments may be necessary depending upon local conditions, demand, competition, transportation factors, the product, and other of the strategic and environmental variables that we will discuss in Chapter 15. For example, if a newer product is being sold, the territory may be expanded to give the salesperson having to sell this new product greater opportunity to sell a profitable volume. Each factor for adjustment should be considered on an individual basis so that the net result is territories which have essentially identical market potential and number of accounts that can be serviced by the salesperson. Territory allotment should be done so that the servicing of the territories will be profitable to you and profitable to the individual doing the selling.

WHETHER TO USE A SALES REPRESENTATIVE

A sales representative is a special type of sales agent who is independent and sells for a number of different companies for the commission that he or she is paid. Selling using a sales representative has some particular advantages for a small firm with a limited product line. First, you don't have to pay money up front to hire salespeople to sell your product. You pay only the commission after the product is sold. Second, you do not have to recruit except to locate the sales representative. And third, with a limited product line and your own salespeople, you must amortize the cost of selling over a limited line of products. Each call is therefore that much more costly and less profitable. There are other advantages to using a sales representative. These include:

1. Immediate entry into a specific territory or a more general market
2. Regular calls on your customers and prospects
3. Quality salesmanship with no need for you to train
4. The fact that cost is a predetermined selling expense, a percentage of sales as their commissions

However, there are also advantages that you must consider if you are going to use a sales representative:

1. You have limited control over a sales agent as opposed to a salesperson, who is your own employee, who reports to you, whom you train, and who is dependent directly upon you for compensation.
2. On very large volumes of sales, the selling expense will be large, much larger than it would be with your own employees.
3. An independent agent's allegiance to your products and your company is not total since he or she also serves other clients who are selling similar (but noncompeting) products or services. Therefore, such individuals must have special incentives to push your products over others.
4. If and when you terminate a contract with a sales representative, the sales representative may take your customer with him or her to a new client who is a competitor.

HOW TO SELECT A SALES REPRESENTATIVE

If you do decide that a sales representative is worthwhile employing for your business, you must get someone who is right for you, right for your company, and will build profits. Therefore, selecting a sales representative should not be done hastily. Edwin E. Bobrow, of Bobrow Lewell Associates, Inc. of New York, recommends that you ask yourself the following questions in matching an agent to your company's character and image.[4]

What sort of selling skills are necessary for selling my products? Does the agent need technical knowledge and experience in addition to personal selling ability?

What marketing functions, if any, do I need in addition to selling?

Must the agent service my product as well as sell it?

Do I need a one-man or one-woman agency or an organization? If the latter, how large an organization?

[4] Edwin E. Bobrow, *Is the Independent Sales Agent for You?* *MA 200*, Small Business Administration (1978).

What is the agent's record of success in products and territories similar to mine?

How long has the agent been in business? What is the agent's reputation? How well can I trade on it?

Are the other lines carried by the agent compatible with mine? Will the agent's contract for his or her existing lines help gain entry for my line?

Is the trade the agent specializes in the one I want to reach?

Does the agent cover the geographic area I need covered and in what depth?

Do the character, personality, values, and integrity of our two organizations correspond?

Can the "reps" who are the employees of the sales agent sales manage their own territories or will they need management and guidance from the agent? Or from me?

Is the agent the type who merely follows instructions or does the agent have a reputation for offering constructive suggestions? Which type do I need?

Is the chemistry right? Will we enjoy working together?

In my own businesses I have employed a special form that all potential manufacturers' representatives or sales representatives are required to complete. This is shown in Figure 13.2. You may incorporate it or design a similar one for your own firm.

SOURCES FOR FINDING SALES REPRESENTATIVES

The following are sources of sales representatives for your company:

1. The Manufacturers and Agents National Association (P.O. Box 16878, Irvine, CA 92713) publishes a directory which may be available in your public library. It is called *The Manufacturers and Agents National Association Directory of Members.*
2. *The Directory of Manufacturers Agents* is published by McGraw-Hill Book Co., 1221 Avenue of the Americas, New York, NY 10020.
3. Recommendations from customers, sales managers of noncompeting companies, as well as editors, salesmen, and trade magazines can all be useful.
4. If you are exporting, contact the Department of Commerce. They may be able to find a manufacturers' representative for you abroad through their computerized system.
5. You can place classified ads in trade magazines whose readership includes the type of manufacturers' representatives that you are seeking.

IMPORTANT ADVICE ABOUT WORKING WITH A SALES REPRESENTATIVE

It's better to have a written contract with an agent so that both sides know exactly what they are going to do. Typically, this contract should spell out that either side may terminate the relationship with the other given 30 days' notice.

GLOBAL ASSOCIATES
Protective Armor Systems
56 N. SIERRA ST.
PASADENA, CALIFORNIA 91109
U. S. A.

Representative's Application Form

This application is for sales representatives of Global Associates' armor product lines on a commission basis for the territory indicated.

Name of firm ______________________________

Address ______________________________

____

____

Year established ________ Number of salespeople ________ Annual sales ________

Managers' or partners' names ______________________________

____

Territory covered ______________________________

Territory desired ______________________________

References ______________________________

____

____

Firms now represented/products

____

____

____

____

____

Figure 13.2. Form for evaluating notential sales reprentative.

When dealing with a new sales representative, you should also be very choosy about granting wide territories. Unfortunately, a few sales representatives will take many more territories than they actually can service well, and some that they do not work in at all. But remember that under the terms of the contract, any sales made in any of those territories, whether directly or indirectly by the sales representative, will ensure him or her of a commission. Therefore, until you understand the situation fully, it is better to limist sales to those territories in which the sales representative has accomplished sales in the past, so that you can be reasonably sure he or she will be able to do so for you in the future.

Even after you have begun a relationship with a sales representative, look for ways to maximize the relationship. Seek ways that you can promote your products or your service with the agent. Remember that you are dealing with a human being, and it is not simply a matter of dropping the whole thing in the agent's lap and letting him or her run. You must give encouragement and reason to excel. You must motivate this individual who is selling for you. Never forget that his or her prime incentive is to build his or her own company. Your sales representative cannot afford to push your products or your services if they are unprofitable. Therefore, you must do what you can to insure that these products or services are profitable. Get feedback regarding customer relations and what features are liked and what features are not, and how your products and services can be improved.

Always involve the sales representative in all phases of your marketing. Invite him or her back for meetings either annually or semiannually at your company. Take his or her suggestions regarding packaging, promotion, and marketing. Make your manufacturer's representative or sales agent a part of your team.

However, with all of this information, do not burden your sales agent with confusing details. He or she must go out and make the sale. So, make your instructions and your aids clear-cut in order to make it easier for your representative to achieve this goal.

SOURCES OF ADDITIONAL INFORMATION

How I Raised Myself from Failure to Success in Selling, by Frank Bettger, published by Prentice-Hall, Englewood Cliffs, NJ 07632.

How to Develop Successful Salesmen, by Kenneth B. Haas, published by McGraw-Hill Book Co., 1221 Avenue of the Americas, New York, NY 10020.

How to Sell Well, by James F. Bender, published by McGraw-Hill Book Co., 1221 Avenue of the Americas, New York, NY 10020.

The Lacy Techniques of Salesmanship, by Paul J. Micali, published by Hawthorne Books, Inc., 260 Madison Avenue, New York, NY 10016.

Management of the Sales Force, by William J. Stanton and Richard H. Buskirk, published by Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, IL 60430.

The New Art of Selling, by Elmer G. Leterman, published by Bantam Books, Inc., 666 Fifth Avenue, New York, NY 10019.

The Sales Managers Handbook, 13th edition, edited by John C. Aspley, published by The Dartnell Corp., 4660 Ravenswood Avenue, Chicago, IL 60640.

Sales Planning and Control, by Richard D. Crisp, published by McGraw-Hill Book Co., 1221 Avenue of the Americas, New York, NY 10020.

RETAILING MANAGEMENT

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UNIT 8

Title: **RETAILING MANAGEMENT (for retailers only)**

Purpose: To understand how factors under the control of the manager, such as price, advertising, and operating expenses, affects the economic performance of the retail store.

Objectives:

1. To understand the role of retailing in the private enterprise economy.
2. To understand the role of retailing in the functional area of marketing and, specifically, in the area of distribution channels.
3. To understand the impact of factors under the control of the manager, such as prices and advertising, on the profits of the retail store.

Materials:

Transparency 8-1:	Overview of Retailing
Transparency 8-2:	Retailing Financial Strategy
Transparency 8-3:	Retail Management
Transparency 8-4:	Retailing—What is It?
Transparency 8-5:	Classic Functions
Transparency 8-6:	Typical Distribution Channel
Transparency 8-7:	Retailer's Role in Sorting Process
Transparency 8-8:	Retail Structures
Transparency 8-9:	Difference of Retailing
Transparency 8-10:	Retailing Concept
Transparency 8-11:	Hoosier Hardware Store
Transparency 8-12:	Definitions
Transparency 8-13:	Profitability Model
Transparency 8-14:	Steps in Calculating BEA
Transparency 8-15:	Asset Turnover Management
Transparency 8-16:	Leverage Ratio
Transparency 8-17:	Hoosier Hardware/Ratios
Handout 8-1:	Retail Management: The Unique Role Retailing Plays in a Private Enterprise Economy
Handout 8-2:	Hoosier Hardware Store
Handout 8-3:	Stew Leonards: The Disney World of Food Retailing

Bibliography:

Barry Berman and J. R. Evans. (1990), Retail Management, MacMillan Publishing Company: New York, New York.

William R. Davidson, D. J. Sweeney, R. W. Stampfl, Retailing Management, John Wiley & Sons: New York, New York.

Dale M. Lewison and M. W. DeLozier, Retailing, Merrill Publishing Company: Columbus, Ohio.

G. Albaum, R. Best and D. Hawkins (1980), "Retailing Strategy for Customer Growth and New Customer Attraction," Journal of Business Research, 58 (March), 7—19.

Edgar Pessemier (1980), "Store Imaging, and Positioning," Journal of Retailing, 56 (Spring, 94—106).

UNIT 8

RETAILING (for retailers only)

CONTENT	PROCESS
A. Introduction	
1. Review Session Objectives	Discuss TP 8-1: Overview of Retailing. Show TP 8-2: Retailing Financial Strategy.
2. Retail Functions in a Private Enterprise Economy	Distribute HO 8-1. Let the participants read it and discuss questions: - How does retailing work? - Why is it important?
3. Relationships between Retailers and Suppliers	Discuss TP 8-3, 8-4, 8-5, 8-6, 8-7, 8-8, 8-9, and 8-10.
4. The Marketing Concept Applied to Retailing	
B. Introduce Retailing Financial Strategy	Discuss TP 8-2 (again).
Profit Margin Management	Discuss and review HO 8-2.
Break-Even Analysis	Discuss TP 8-11: Hoosier Hardware Store
Asset Turnover Management	Discuss TP 8-12: Definitions
Management of Debt	Begin discussion of the Hoosier Hardware Case (HO 8-2).

CONTENT	PROCESS
C. Profit Margin Management	Discuss TP 8-13: Profitability Model
Price Unit Volume Cost of Good Sold Operating Expenses	Continue Hoosier Hardware Case discussion.
D. Break-Even Analysis	Discuss TP 8-14: Steps in Calculating BEA
Judge in advance the impact on profile of:	
Facility Expansion Reduce Margins Changes in Volume	Continue the Hoosier Hardware Case and exercises for the participants.
E. Asset Turnover Management	Discuss TP 8-15: Asset Turnover Management.
<u>Net Sales</u> Total Assets	Continue the Hoosier Case
Changes in: Inventory Accounts Receivable Other Current Assets	
F. Management of Debt	Discuss TP 8-16: Leverage Ratio and TP 8-17: Hoosier Hardware.
Leverage Ratio	
<u>Total Assets</u> Net Worth	Continue Hoosier Hardware Case discussion.

CONTENT	PROCESS
Illustrate the impact of different levels of debt.	Use HO 8-2 and have participants work out the various exercises for discussion.
G. Retail Strategy	Discuss one or more of the following cases (HO 8-3): Stan Leonard's Land's End Janes Camera Shop Encourage the participants to discuss their own business and related strategy issues.
H. Summary and Conclusions	Briefly review key points made in session.

I. OVERVIEW OF RETAILING

- Definitions

- Retail Functions in the Private Enterprise Economy

- Relationships Between Retailers and Suppliers

- The Marketing Concept Applied to Retailing

II. RETAILING FINANCIAL STRATEGY

- **Profit Margin Management**
- **Break even Analysis**
- **Asset Turnover Management**
- **Management of Debt**

RETAIL MANAGEMENT

The Unique Role Retailing Plays

RETAILING – WHAT IS IT?

1. Retailing consists of business activities involved
   in the sale of goods and services to consumers for personal, family, household, and business use. It is the final stage in the distribution process.

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CLASSIC FUNCTIONS PERFORMED BY RETAILING

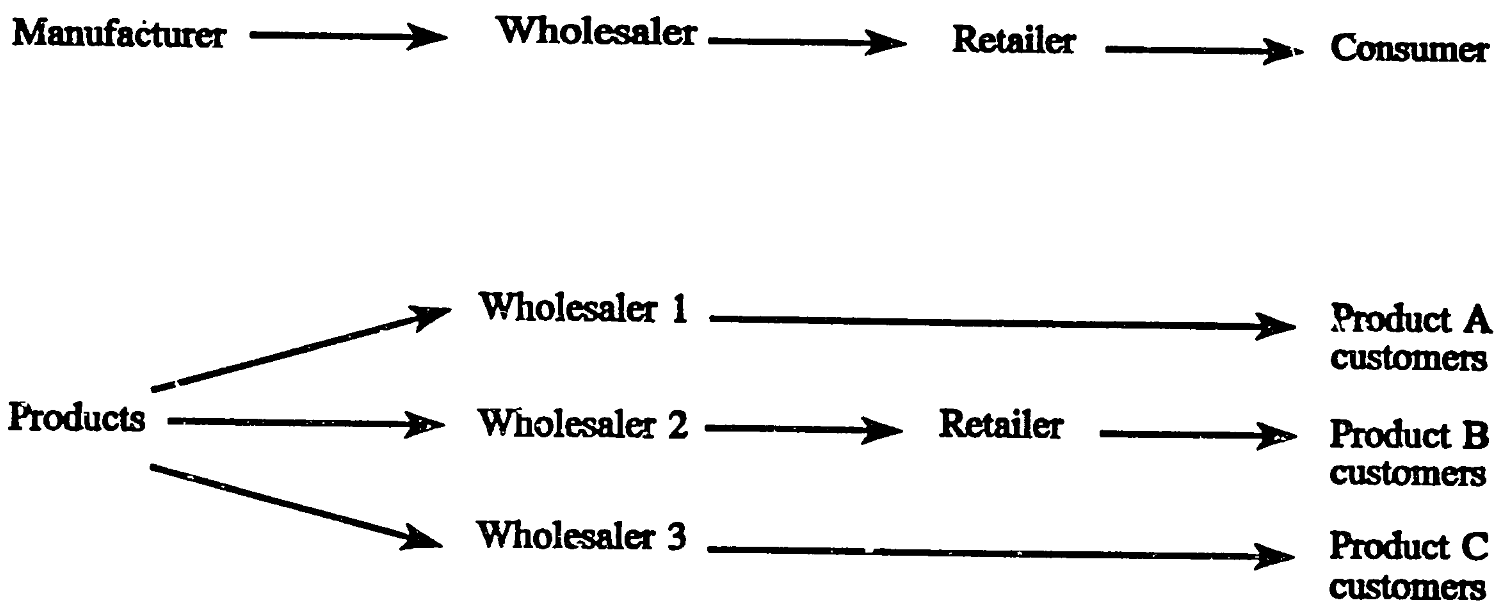
1. Creation of assortments

2. Breaking bulk

3. Ready exchange of value

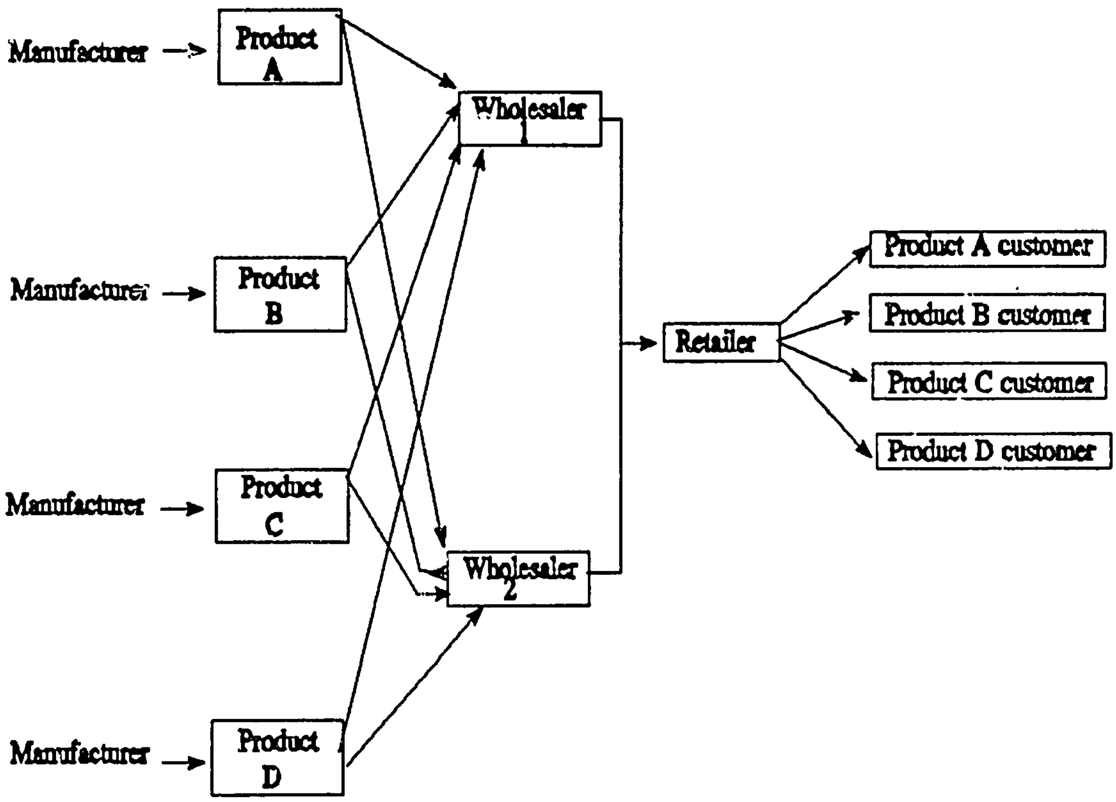
TP 8-6

TYPICAL DISTRIBUTION CHANNEL



TP 8-7

THE RETAILER'S ROLE IN THE SORTING PROCESS



RETAIL STRUCTURES

1. Independent stores

2. Chain stores

3. Franchises

4. Vertical integration

WHAT MAKES RETAILING DIFFERENT FROM OTHER TYPES OF BUSINESSES?

1. Small sized transactions

2. Unplanned purchases

3. Inspection of merchandise

4. Retailers take title to merchandise produced by others

5. Flexibility

6. Inventory management is crucial

7. Retail managers and owners can see clearly how they can affect their profitability and net worth

THE RETAILING CONCEPT

1. Retailers meet customer needs not needs of managers and owners
2. Customer is center of activity
3. Integration of all departments to serve customers
4. Setting and meeting goals designed to better serve customers

HOOSIER HARDWARE STORE

Income Statement

Sales	1,000,000		100%
Cost of Goods Sold	800,000		80%
Gross Margin	200,000		20%
less: operating expenses		100,000	10%
variable expenses		80,000	8%
fixed expenses			
Net profit	20,000		

DEFINITIONS:

Sales	=	**$/unit x number units sold**
Cost of goods sold	=	**Cost of merchandise to retailer**
Variable expenses	=	**Expenses that increase or decrease with increases or decreases in sales**
Fixed expenses	=	**Expenses associated with being in business: do not change with changes in sales**
Net profit	=	**Gross margin dollars — operating expenses**

5

PROFITABILITY MODEL

Total Assets = Liabilities

$$\textbf{Leverage} = \frac{\textbf{total assets}}{\textbf{net worth}} = \frac{\textbf{liabilities + net worth}}{\textbf{net worth}}$$

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STEPS in calculating BEA:

1. **Classify all expenses as either fixed or variable expenses.**

2. **Determine variable expense ratio or variable expenses as a percentage of sales.**

3. **Determine the gross margin ratio (gross margin dollars/total sales dollars).**

4. **Calculate the marginal income ratio (variable expense ratio – gross margin ratio).**

5. **Find Break-even point (fixed expenses/marginal income ratio).**

-5\

ASSET TURNOVER MANAGEMENT

Asset turnover is calculated in the following way:

$$\text{asset turnover} = \frac{\text{net sales}}{\text{total assets}}$$

For Hoosier Hardware the following data was collected from company records

Inventory	$200,000
Accounts Receivable	$80,000
Other current assets	$20,000
Fixed assets	$100,000
Total assets	$400,000

LEVERAGE RATIO

$$\text{Leverage} = \frac{\text{Total Assets}}{\text{Net Worth}}$$

where net work is defined as total assets − debt.

When the leverage ratio is multiplied by ROA, RONW is obtained,
Or,

$$\text{RONW} = \text{ROA x leverage ratio}$$

$$\text{RONW} = \frac{\text{net profit}}{\text{total assets}} \times \frac{\text{total assets}}{\text{net worth}}$$

HOOSIER HARDWARE

Leverage Ratio

Assumptions

Assume the following information exists on Hoosier Hardware.

Accounts Payable	$120,000
Notes Payable	$10,000
Other Current Liabilities	$10,000
Long-term Liabilities	$50,000
Total Liabilities	$190,000
Total Liabilities and net worth	$400,000

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HO 8-1

RETAIL MANAGEMENT: THE UNIQUE ROLE RETAILING PLAYS IN A PRIVATE ENTERPRISE ECONOMY

I. Retailing: What is it?

A. Retailing consists of those business activities involved in the sale of goods and services to consumers for their personal, family, household, and business use. It is the final stage in the distribution process.

B. How does it work? Why is it important?

1. In a private enterprise economy retailing accomplishes several classic distribution functions.

   a. Creation of assortments or the offering of an array of products to anticipate and fulfill consumer needs.

   b. Breaking bulk or the offering of products and services in quantities small enough for individual consumption.

   c. Ready exchange of value through time convenience, place convenience, transitional efficiency, information availability, and competitive prices.

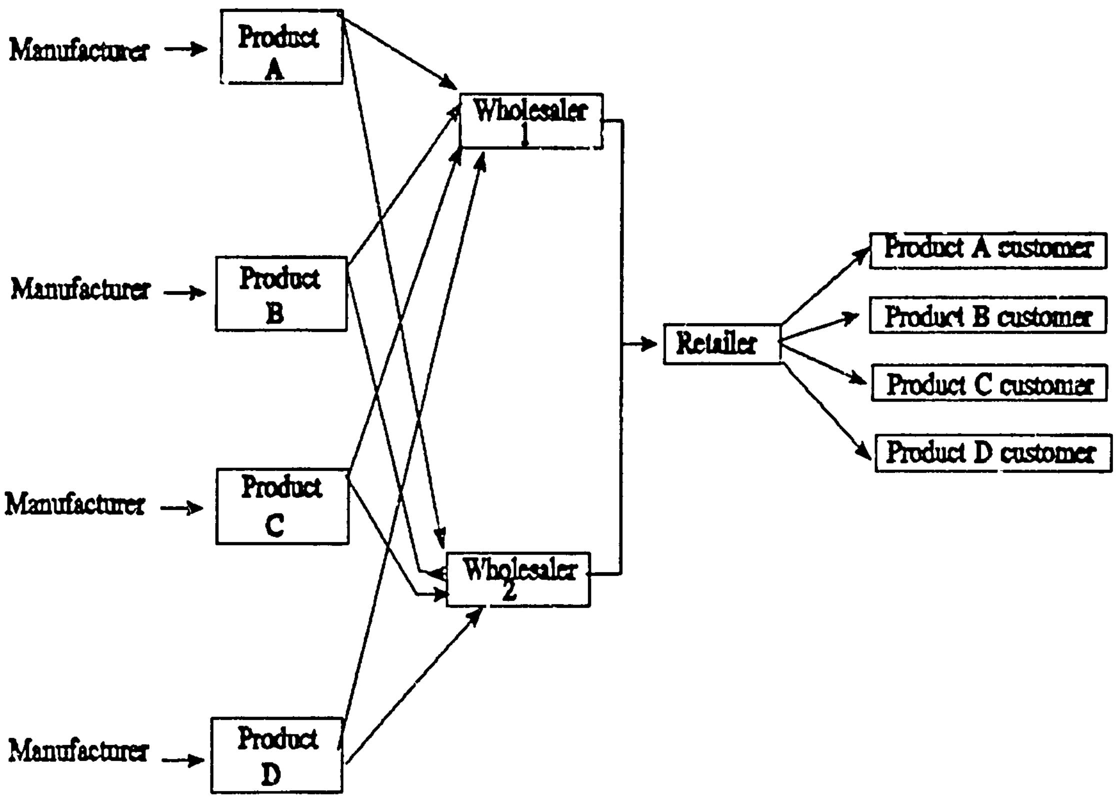
2. Retail functions in Distribution.

Manufacturer → Wholesaler → Retailer → Consumer

A Typical Distribution Channel

Retailers play an important role as intermediates between manufacturers, wholesalers, and other suppliers, and consumers. The retailer collects a variety of goods and services from suppliers and offers them to consumers. This process is called the sorting process. Since manufacturers wish to produce large quantities of a limited number of products for a limited number of buyers, retailers satisfy manufacturer needs by buying large quantities of manufacturers' limited outputs and sorting them for eventual sale to consumers.

THE RETAILER'S ROLE IN THE SORTING PROCESS



The Retailer's Role on The Sorting Process.

3. Retail Structures

   a. Independent Establishments — one retail store owned by one or more persons. The corner bakery, for example, is an independent establishment.

   b. Chain Stores — common ownership of multiple stores with many of the functions of the stores being centralized.

   c. Franchises — a structure that combines some of the features of independent single stores (A) with features of chain stores (B). Franchising involves a contractual relationship between an independent businessperson and the organization. For an initial fee and a percentage of gross sales, the franchisee is granted the right to operate a business under an established name (e.g., McDonald's) thought he use of certain approved methods.

   d. Vertical integration — a structure characterized by manufacturer ownership of retail establishments.

4. What is unique about retailing or what distinguishes it from other types of business?

   a. Average size of sales transition is very small and is far smaller than transactions for manufacturers.

   b. Many unplanned purchases are made.

   c. Consumers visit retailers at the urging of retailers and carefully inspect their merchandise.

   d. Retailers take title to manufacturers' merchandise and sell it for them.

   e. Retailers are very flexible and are able to change quickly to meet charges in customers preferences.

   f. Inventory management is most crucial for retailers and it is often very difficult for retailers to determine what and how much is in inventory.

   g. Retail managers and owners are able to see clearly how they can affect their net profitability and net worth through charges in price, purchasing, volume, expenses, etc.

5. The Marketing Concept Applied to Retailing

   a. The marketing concept centers around a business striving to meet customers needs and wants and <u>not</u> the needs and wants of the owners, managers, or suppliers. Satisfaction of the customer leads to greater probability.

   b. The marketing concept can be transformed into the retailing concept by 1) emphasizing the customer, 2) integrating different functions in the retail operation (e.g., buying, selling, shipping, customer service, etc.) to satisfy customer needs, and 3) setting and attempting to meet goals.

   c. Unfortunately, the retailing concept, like the marketing concept, is not well understood or appreciated by managers and owners. Thus many retailers fail to serve their customers adequately by following their competitors instead of their customers, and not being receptive to the idea that the retail business is customer-driven and not just a reflection of their own ideas about how to run a retail operation.

LECTURE AND EXERCISES: HOOSIER HARDWARE STORE

Objectives: To understand how managers and owners can influence profit performance, return on assets, and return on net worth of the retail store.

Introduction: The Hoosier Hardware Store sells a wide variety of hardware items and home improvement items for use by consumers. The management and owners of the store are looking for ways to improve the performance of the store. The following income statement was prepared for the store.

Income Statement

Sales	1,000,000		100%
Cost of Goods Sold	800,000		80%
Gross Margin	200,000		20%
less: operating expenses		100,000	10%
variable expenses		80,000	8%
fixed expenses			
Net profit	20,000		

Definitions:

Sales	=	$/unit x number units sold
Cost of goods sold	=	Cost of merchandise to retailer
Variable expenses	=	Expenses that increase or decrease with increases or decreases in sales
Fixed expenses	=	Expenses associated with being in business: do not change with changes in sales
Net profit	=	Gross margin dollars — operating expenses

Hoosier Hardware wishes to determine the effect of changes in volume, price, cost of goods sold (CGS) and operating expenses on profit.

Exercise #1:

What impact does a 2% increase in price (to consumers) have on the store's net profit? Assume all other elements of the business remain constant.

In the "real world", why is it unrealistic to assume that all things will remain constant during a 2% price increase?

Exercise #2:

What impact does a 10% increase in sales volume have on the store's net profit margin? Assume all other elements of the business remain constant.

Exercise #3:

What impact does a 2% increase in price and a 5% decrease in sales volume have on the store's net profit margin?

Why is presenting net profit margin as a percent of sales useful for managers and owners?

BREAK-EVEN ANALYSIS

One of the most useful tools for the analysis and planning of expenses is break-even analysis (BEA). BEA anticipates future performance by simulating the impact on profits of a charge in one or more of the decision variables. BEA can tell us what profit or loss will occur for a given sales volume, what additional sales volume is needed to cover additional fixed costs arising from a store-modernization program, and what sales volume is required to earn a designated profit. Hence, BEA is a valuable tool for managers and owners.

Steps in calculating BEA:

1. Classify all expenses as either fixed or variable expenses.
2. Determine variable expense ratio or variable expenses as a percentage of sales.
3. Determine the gross margin ratio (gross margin dollars/total sales dollars).
4. Calculate the marginal income ratio (variable expense ratio — gross margin ratio).
5. Find Break-even point (fixed expenses/marginal income ratio).

Exercise #4:

Using the original income statement calculate the break-even point for Hoosier Hardware Store.

Exercise #5:

Assume that Hoosier Hardware decides to expand its facilities by renting the storeroom next door. Rent increases by $20,000 per year. What is the new break-even point?

Exercise #6:

The store decides to lower its prices to meet a new competitor in town, therefore, gross margin percent decreases by 10 percent. What is the new break-even point?

Exercise #7:

The management wishes to realize a net profit a $50,000. How can we incorporate this requirement in BEA? What is the new break-even point with a net profit requirement of $50,000?

Asset-Turnover Management

Asset-turnover, or the ratio of net sales to dollars invested in assets (e.g., inventory), when combined with net profit margin, determines the firm's rate of return on assets. Assets represent a major part of working capital and can constitute up to 75 percent or more of total assets. Thus, managers should pay special attention to the efficiency with which these assets are used.

Asset turnover is calculated in the following way:

$$\text{asset turnover} = \frac{\text{net sales}}{\text{total assets}}$$

For Hoosier Hardware the following data was collected from company records.

Inventory	$200,000
Accounts Receivable	$80,000
Other current assets	$20,000
Fixed assets	$100,000
Total assets	$400,000

Exercise #8:

What is the asset turnover ratio for Hoosier Hardware? What does this number mean in words?

Exercise #9:

What is the impact on asset turnover if net sales increased by 10% from its original level? The effect if net sales decreased by 10%? If inventory increased by 10% in anticipation of a shortage? (All other elements remain constant.)

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When the asset turnover figure is combined with the net profit margin percent return on assets (ROA) is found. ROA is a measure of performance for managers and is typically compared with past ROA figures or industry averages to determine how well the firm is performing.

Exercise #10:

What is the store's ROA using the original profit impact variables and asset variables? What is the effect on ROA of a 10% increase in profit margin percent? What is the effect on ROA of a 10% increase in inventory? (All other elements remain constant).

Retailers can directly influence their ROA by having lower inventory levels, or avoid being overstocked. Plus, retailers can eliminate slow-moving and duplicate items. Such actions require the retailer to document sales of all items on an on-going basis.

Accounts receivable is a second area where retailers can positively effect ROA. Having an in-house financing plan and accepting checks raises accounts receivables (A/R). A/R can be reduced by having a third party offer credit such as VISA, Master Card, or American Express.

Leverage Ratio

ROA is a measure of how well managers are performing. Another measure called Return on Net Worth (RONW) is a measure of how well the owners are performing. The link between ROA and RONW is provided by the leverage ratio.

$$\text{Leverage} = \frac{\text{Total Assets}}{\text{Net Worth}}$$

where net work is defined as total assets — debt.

When the leverage ratio is multiplied by ROA, RONW is obtained, Or,

$$\text{RONW} = \text{ROA x leverage ratio}$$

$$\text{RONW} = \frac{\text{net profit}}{\text{total assets}} \times \frac{\text{total assets}}{\text{net worth}}$$

<u>Exercise #11</u>:

Assume Hoosier Hardware as a net profit of $20,000 and total assets of $400,000, plus there is no debt in the company. What is the store's RONW?

Exercise #12:

Assume the store's total assets are still $400,000 but $100,000 is provided by the bank (total liabilities). Net profit remains at $20,000. What is RONW? What does RONW mean in words?

Since RONW increases when more debt is assumed by the company, is it always desirable to have a high leverage ratio? The answer is no because at some point the lenders "own" the company, while the business-operator becomes, in essence, an operator not an owner with little personal stake in the business. Thus, there is a range of acceptable leverage ratios. For example, clothing stores have an acceptable leverage ratio of 1.8, while food stores have an acceptable leverage ratio of 2.6. So the leverage ratio of a store must be compared to some base to ascertain whether it is acceptable or not.

By using a second definition for leverage we can build a total profitability model for the firm. Since

$$\text{Total Assets} = \text{Liabilities} + \text{net worth}$$

$$\text{Leverage} = \frac{\text{total assets}}{\text{net worth}} = \frac{\text{liabilities} + \text{net worth}}{\text{net worth}}$$

This formula allows us to use the other side of the balance sheet — the liabilities and net worth side. Thus, we use the income statement and the balance sheet to build the total profitability model.

Assume the following information exists on Hoosier Hardware.

Accounts Payable	$120,000
Notes Payable	$10,000
Other Current Liabilities	$10,000
Long-term Liabilities	$50,000
Total Liabilities	$190,000
Total Liabilities and net worth	$400,000

Exercise #13:

What is the leverage ratio for Hoosier Hardware? Using the original figures on net profit margin and asset turnover what is the RONW for Hoosier Hardware?

MARKETING

Stew Leonard's: The Disney World of Food Retailing

In 1967, the state of Connecticut decided to construct a highway that would run through the Leonard family's dairy plant. At that time, thirty-seven-year-old Stew Leonard, who was working for the family as a milkman covering a local delivery route, visited dairies of all types and sizes throughout the United States and conferred with customers on his route. Based on this research, in 1969, Leonard opened a retail dairy store that featured only eight basic items (such as milk and eggs) and low prices. The store had a life-sized plastic cow in front and large windows, so that customers could see fresh milk being bottled. The first week the dairy was open, it did $17,000 in business, an unheard-of-amount for a small dairy store.

Since opening, Stew Leonard's store in Norwalk, Connecticut, has expanded twenty-six times. Today, Stew Leonard's is no longer just a dairy store, but a large food retailer. The Norwalk store occupies 110,000 square feet (about six to seven times the size of a conventional supermarket) and generates $100 million in annual sales (almost twelve times the amount in an average chain-supermarket outlet). Customers are attracted from as far away as Rhode Island, New York, and Massachusetts. Stew Leonard has been praised in the best-selling book *A Passion for Excellence* and in the video *In Search of Excellence*. And his store has been called the "Disney World" of food retailing. As there are over ninety other food stores within fifteen miles of Stew Leonard's, the store's success is even more remarkable.

Stew Leonard's strategy includes these key elements:

Clear objectives—Stew Leonard's has set up a number of goals to which it tries to adhere. For example, "We try to make sure prices are at least 10 percent lower than stores within a five-mile radius," and "We have to sell at least 1,000 units of an item a week to include it in inventory."

Customer consciousness—Stew Leonard reads the suggestion box daily. By mid-morning, he wants to see problem areas corrected. If checkout lanes are more than three deep, customers on line are given cookies or ice cream to make their visit more tolerable. On a three-ton granite block in front of the store (next to the full-sized plastic cow) is Stew Leonard's basic philosophy, "Rule 1: The customer is always right! Rule 2: If the customer is ever wrong, reread Rule 1." Each year, 3.5 million customers shop at Stew Leonard's.

Merchandising—The store carries only 750 items versus 8,000 to 12,000 in an average supermarket. Stew Leonard selects fast-moving items, buys on special deals, uses the store brand name on many products, and is very concerned about freshness. The store stocks just four kinds of cereal, two brands of yogurt, one brand of peanut butter, and one brand of chicken. And some items normally found in supermarkets, such as flour, sugar, and household cleansers, are not carried at all. In a typical week, Stew Leonard's sells such as flour, 5 tons of chocolate cookies, 100,000 pounds of Perdue chicken, 40,000 croissants, 190,000 quarts of milk, and almost 20,000 ice cream cones.

Concern about quality—Stew Leonard is a stickler for quality. The restrooms have fresh flowers and are cleaned often. To ensure product freshness, Perdue chickens arrive three times per week, and fish is delivered daily. Leonard will visit suppliers and chastise them if merchandise is of inferior quality or not fresh enough.

Atmosphere—Stew Leonard's is an exciting and fun place in which to shop. Through the use of one horseshoe-shaped aisle, all customers must pass by each product display. To entertain patrons and their children, an employee dresses in a cow suit and dances with them. And the store has a petting zoo, two robot dogs, a robot cow, and a farmer singing nursery rhymes. Pizza is baked in front of customers, and samples of lemonade, horseradish, cheese, cupcakes, gazpacho, and other goodies are plentiful. As one patron noted, "You come in here just for milk and you walk ut with a shopping cart full of food." See Figure 1-6.

Competitive intelligence—A customized fifteen-person van is used to make regular visits to interesting stores, even if they are in another business or up to four hundred miles away. After every visit, each employee on the trip is asked to come up with one idea that can be implemented immediately.

Employees—Stew Leonard's has 650 employees and encourages them to perform to their potential. They are expected to adhere to the principles of S.T.E.W.: satisfy the customer, teamwork, excellence, and wow. It pays for employees to take Dale Carnegie courses to improve their skills. Recognition for superior performance is plentiful. Prominently displayed pictures acknowledge star employees of the month, top performers of the year, and so on; and plaques, gift certificates, and $100 dinners are awarded.

Community involvement—Stew Leonard's is an active member of its community. For example, tours of the store are offered for school, after-school, and adult groups.

Overall, Stew Leonard's has done an excellent job of applying strategic planning principles. The initial focus of Stew Leonard's has been altered from a dairy store to a large food store to take advantage of growth opportunities, goals have been set, an emphasis on consumer satisfaction has been enacted well, and an innovative merchandising philosophy (and its accompanying atmosphere) has been carefully devised and carried out in an integrated manner. Yet, despite its success, Stew Leonard's regularly monitors performance through a suggestion bo.., visits to other stores, and so on.

Lands' End: From Outlet Store to Mail-Order Leadership

Gary Comer worked for the Young & Rubicam advertising agency for ten years; but his true vocation was sailing. So, in 1963, Gary left the ad agency and with his sailing partner, Dick Stearns, opened a catalog outlet store in Chicago that specialized in sailing equipment and fittings. This enabled him to combine business and pleasure.

After five years, and only moderate success, Gary Comer bought out his partner and started tinkering with the catalog. He added clothing, accessories, and luggage that were aimed at full-time and weekend sailors. In 1976, Comer decided to no longer carry sailing equipment; competition was too intense. Lands' End began to focus on recreational and informal clothing, accessories, shoes, and soft-sided luggage and broadened its customer market.

Today, annual sales (almost all of which are through mail-order and toll-free telephone transactions) have reached more than $250 million; and over three million customers buy from a Lands' End catalog in a three-year period. The company's headquarters, warehousing facilities, and customer-service operations are located in the quiet Wisconsin farming community of Dodgeville.

Lands' End's strategy includes these major elements:

Growth-oriented objectives—Lands' End is directed toward long-run growth. For this reason, in 1986, the company offered 1.4 million shares of stock to the general public in order to fund further expansion. Land's End is interested in generating higher sales volume from existing customers and in getting some of the three million customers in its data base who have not purchased in the last three years to do so.

Appeal to a prime consumer market—Lands' End is very strong with thirty-five- to forty-nine-year-old customers, 60 percent of whom have incomes of $35,000 and up, 90 percent of whom have attended college, and 70 percent of whom are professionals: :We evolved into a higher socioeconomic market segment. We offer products that a certain market wants."

Outstanding customer service—Lands' End's long-standing "principles of business," shown in Figure 1-7, indicate the emphasis that it places on customer service. These two observations bear this out further: (1) A mail-order industry consultant said that Lands' End has "devoted an extraordinary amount of attention to customer service, delivery, and warehouse operations, anything that would enrich its relationship with customers. It's much better than the industry as a whole." (2) Based on a poll of its readership, **Consumer Reports** stated that Lands' End had a merchandise satisfaction rating of 94 percent.

Personalized company image—Unlike traditional mail-order retailers, which only show pictures of their products, present brief descriptions of them, and cite their prices, Lands' End adds a personal touch. A typical catalog may contain an eight-page story on the history of wool and "chatty news" about each item carried in the catalog. Lands' End's full and unconditional guarantee is clearly displayed in the catalog, as is its toll-free 800 number. Customers who call Lands' End are likely to reach one of its full-time, year-round operators, who provide information, answer questions, and process orders (which are usually received by customers within two weeks).

Consistent promotion program—Lands' End mails out a new catalog every four weeks. It also runs ads in appropriate publications, such as *Fortune, Inc.*, the *New York Times Sunday Magazine*, the *Wall Street Journal*, and *USA Today*. All ads "convey to our readers and customers the humanity of our company. First and foremost, Lands' End is a study in personal relations."

Efficient operations—Ordering, warehousing, and other operations are highly automated and computerized. The firm runs outlet stores in Chicago and in Madison, Wisconsin. These stores are used to sell returned merchandise or items that have been overordered and must be cleared out.

PRINCIPLES OF DOING BUSINESS

PRINCIPLE 1.

We do everything we can to make our products better. We improve material, and add back features and construction details that others have taken out over the years. We never reduce the quality of a product to make it cheaper.

PRINCIPLE 2.

We price our products fairly and honestly. We do not, have not, and will not participate in the common retailing practice of inflating markups to set up a future phony "Sale."

PRINCIPLE 3.

We accept any return, for any reason, at any time. Our products are guaranteed. No fine print. No arguments. We mean exactly what we say: GUARANTEED. PERIOD.

PRINCIPLE 4.

We ship faster than anyone we know of. We ship items in stock the day after we receive the order. At the height of the last Christmas season the longest time an order was in the house was 36 hours, excepting monograms which took another 12 hours.

PRINCIPLE 5.

We believe that what is best for our customer is best for all of us. Everyone here understands that concept. Our sales and service people are trained to know our products, and to be friendly and helpful. They are urged to take all the time necessary to take care of you. We even pay for your call, for whatever reason you call.

PRINCIPLE 6.

We are able to sell at lower prices because we have eliminated middlemen; because we don't buy branded merchandise with high protected markups and because we have placed our contracts with manufacturers who have proved that they are cost conscious and efficient.

PRINCIPLE 7.

We are able to sell at lower prices because we operate efficiently. Our people are hard working, intelligent and share in the success of the company.

PRINCIPLE 8.

We are able to sell at lower prices because we support no fancy emporiums with their high overhead. Our main location is in the middle of a 40-acre cornfield in rural Wisconsin. We still operate our first location in Chicago's Near North tannery district.

Gary Comer, President

FIGURE 1-7
Lands' End

It is clear that Lands' End is committed to its customers and to an ongoing, integrated strategic retailing plan. The company has a distinct product offering, solid objectives, a large and loyal customer base, and sound operating principles, as well as a system for implementing and improving its strategy.

Jane's Camera Shop: How a Small Independent Retailer Can Prosper

Jane Riddell has owned and operated Jane's Camera Shop for eleven years. The store is a full-service, independent camera shop that offers a good selection of cameras, slide projectors, VCRs, video cameras, film, film processing, and photographic accessories. Jane's Camera Shop is located in a suburban shopping center about twenty miles from a major downtown shopping district known for its discount retailers (which also engage in heavy mail-order sales).

Over the years, Riddell has done well, in large part because of a comprehensive and integrated strategy:

Concentrated product offering—Jane's Camera Shop is just that, a camera shop. It does not sell stereos, televisions, microwave ovens, or personal computers (all items that competitors carry). This enables the store to project a specialist image and maintain a high level of expertise.

Realistic goals—Jane does not plan to open additional outlets but wants to make the current store as efficient and profitable as possible. A steady yearly sales growth of 7—8 percent, with a net pre-tax profit of 8—10 percent on sales, is sought. Currently, Jane's annual sales are just over $650,000; and pre-tax profit for the most recent year was $60,000.

Individual customer attention—Either Jane or one of her salespeople is always available to demonstrate cameras or provide advice on picture taking. According to Riddell, "We will never sell a camera or equipment unless the customer is sure it is the right model for him or her and understands how to use it. Customer satisfaction is crucial for us."

Use of a one-price policy—Prices are clearly marked on all items, and customer bargaining is neither encouraged nor permitted. Although Jane's prices are 10—20 percent higher than those charged by downtown discounters, the store's prices are honest and represent its full-service orientation. Jane's does not surprise customers with hidden charges (such as pricing separately for the bulb and tray in a slide projector); and discounters are reluctant to demonstrate cameras or to compare different models.

Stocking only items purchased from manufacturers' authorized U.S. distributors—Many competitors purchase imported items from unauthorized distributors overseas. The "gray market" products carried by competitors are priced very low, sometimes below an authorized distributor's wholesale price; however, instructions may be in a foreign language, and they may not have a standard U.S. warranty (which precludes repairs being carried out by authorized distributors). Jane's and its distributors honor all U.S.

warranties; and Jane's offers an extra one-year store warranty at no charge on all products priced at $100 and over.

Good store location—Jane's Camera Shop is situated in a medium-sized shopping center anchored by a branch outlet of a leading department store chain. The shopping center is off a heavily traveled highway in a middle-class residential community. Special events, such as photography exhibits, add to the attractiveness of the center. Parking is plentiful.

Regular evaluation of performance—Each three months, Jane Riddell does a complete analysis of sales and costs by product category. Redesigned displays, special sales, and changes in ordering patterns are based on Jane's analysis.

Over the last year and a half, Riddell has made two major changes in her strategy. First, Jane's added one-hour film processing; more recently, it began carrying video cameras and VCRs.

One-hour film processing was introduced because Riddell was concerned that film and film-processing sales were not rising satisfactorily. This was disconcerting for several reasons. Film and film processing represent about 10 percent of total store sales and 15 percent of profits. Film and film-processing sales help generate consumer traffic into the store; once inside, customers frequently buy batteries, camera cases, extra lenses, and so on and see displays for new models. Customer names on film-processing receipts can be used in mailing lists for advertisements and promotions, and to determine the extent of Jane's trading area.

Jane's acquired a state-of-the-art Kis S.A. one-hour film-processing machine for $32,900. This machine requires only twenty-five square feet of space and is one-tenth the size of a traditional machine. It can process fifty to sixty rolls of film per day. So far, one-hour film processing has turned out well for Jane's. Film processing is up 25 percent, and film sales have increased by 15 percent.

About six months ago, Jane Riddell determined that video cameras would fit in well with her product mix and that they had a strong long-term potential. Jane's now stocks four brands of full-sized video cameras, three brands of compact video cameras, and one brand of 8mm video camera. A full line of accessories is also stocked.

At that time, Riddell planned to continue her policy of not carrying VCRs, feeling that they were more appropriate for the discount retailers than for her store. But after several video camera customers expressed disappointment in being unable to purchase VCRs to go with their new cameras, Jane agreed to carry four models of full-feature VCRs. Today, the video camera and VCR business is thriving.

By examining the policies followed by Jane's Camera Shop, it can be seen that strategic planning in retailing is applicable to small firms and to those selling services (in this case, film processing) as well as goods (film and cameras). Jane Riddell knows her business and where it is headed, has a systematic plan, and is flexible enough to modify the strategy when it is desirable to do so.

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The Marketing Concept Applied to Retailing

All of the firms described here have demonstrated a sincere long-term desire to please their customers. Stew Leonard's combines an entertaining family atmosphere with low prices. Lands' End advertises that "if you are not completely satisfied with any item you buy from us, at any time during your use of it, return it and we will refund your full purchase price." Jane's Camera Shop has a patient and knowledgeable sales force and uses honest pricing.

In addition to a customer orientation, it has been shown that each of the three firms utilizes a coordinated, companywide approach to strategy development and implementation and expresses a clear goal orientation. Together, these principles form the marketing concept, a notion first introduced by General Electric (a leading U.S. manufacturer).

The marketing concept can be transformed into the retailing concept and should be understood and used by all retailers. See Figure 1-8. The retailing concept has these elements:

1. Customer orientation—A retailer must determine the characteristics and needs of its customers and must endeavor to satisfy customer needs to the fullest.

2. Coordinated effort—A retailer must integrate all plans and activities to maximize efficiency.

3. Goal orientation—A retailer must set goals and then use its strategy to attain them.

Customer orientation

Coordinated effort | Retailing concept | Retail strategy

Goal orientation

FIGURE 1-8
Applying the Retailing Concept

Unfortunately, the retailing concept is not understood and used by every retailer. Some are indifferent to customer needs, plan haphazardly, and have unclear goals. Too often, retailers are not receptive to change or new ideas, or they blindly follow strategy changes implemented by competitors. Some retailers do not research their customers or get feedback from them; they rely on the reports of their suppliers or their own past sales trends.

Nonetheless, the retailing concept is fairly easy to adopt. It just requires communicating with consumers and considering their desires as critical to the retailer's success, developing and enacting a consistent strategy (such as having designer brands, plentiful sales personnel, attractive displays, and above-average