Marketing Guide

Small Business BC
601 West Cordova Street Vancouver BC V6B 1G1
Phone: 604-775-5525 In BC: 1- 800- 667-2272 Fax: 604-775-5520
http://www.smallbusinessbc.ca
Reviewed: October 2004

Introduction to Marketing

This handbook is intended to be a tool for entrepreneurs to assist them with their marketing efforts. It is a general overview of the marketing function, which is a very complex activity. This information should assist entrepreneurs in understanding the marketing function and its role in business. Additional sources of information are listed at the end of this handbook, which should be consulted for a more in-depth understanding of marketing.

Marketing

Many think of marketing as promotion, advertising or sales. Whey they see television advertisements or newspaper advertisements, they view this as marketing. Others use the term in place of the word "sales." How often have you heard a company or individual say they are "selling" a product or service? But using the term in this way is only partially correct. Marketing is much more than simply promotion or selling.

A marketing approach to business begins with understanding you customers and their needs. It involves designing the entire company around fulfilling those needs, beginning with the product or service. Decisions that involve pricing, services, advertising and even sales are developed with the customer's needs and desires.

Simplified, marketing starts with the customer. You work backwards from there.

Needs, Wants and Demand

Without a basic human need, there would not be a desire to purchase products or services. It is a "need" or a state of desire that drives marketing. Humans have many needs: physical needs, food and clothing; safety and social needs, shelter and a secure environment; the need to belong and feel loved; and individual needs that revolve around self-esteem and self-actualization, meaning we need to achieve some sort of status, such as a reward on the job and or self-development such as education. What is important to remember about needs is they are not created; they are part of who we are.

Wants describe the objects that will satisfy the needs. For example, two people are hungry. One wants a hamburger the other wants lobster. Marketers respond to these wants, which are triggered by needs, by providing a variety of products and services.

People want to be satisfied in different ways (hamburger vs. lobster) and will choose what products or services they buy based on their wants and resources. You are hungry (a need), you desire lobster (a want) but you can only afford a hamburger (demand).

What further complicates the process is that customers typically view products and services as a 'bundle of benefits' and choose those that give them best value (or bundle) for their money.

Why is this important for small business? Because marketing begins and ends with the customer, you must understand what drives customers to buy products in order to understand how you can best communicate your offerings.

Defining Products and Services

There are a multitude of choices for products in the marketplace. Products are generally thought of as tangible objects, e.g. computer, furnace. But, products are not limited to physical objects. Services, persons, places, organizations, activities and ideas are all “product” concepts. Basic marketing concepts apply to all.

Determining your Target Market?

A target market is a group of customers who have a similar need for a product or service, money to purchase the product or service, and willingness and ability to buy it. Typically markets are divided into two broad categories:

Consumers: Individuals who buy or acquire products or services for personal use or consumption.

Businesses: Products and services purchased for use in the development of other products or services, or for the purpose of reselling or renting them to others at a profit.

Developing a Marketing Strategy

Analyzing your Business

A mission statement defines an organization’s purpose. Market definitions of a business define the company’s mission in terms of satisfying the customer’s needs. Mission statements must be realistic and specific. Make the statement workable, designed to use as an analysis with you business plan. It must guide you along. For example, a mission statement asserting you want to be the best in the industry, producing the highest quality products at the lowest price, does not provide much value in helping you make tough decisions in the future. It is too generic and does not define your unique products/services and who your customers are. The mission statement must say something about what business you are in, your customers, and how you are positioning yourself in the marketplace.

Answer these questions when developing your mission statement:

Questions	**Possibilities**
What is our business?	Hairdressers are in the beauty business.
Who are our customers?	Women, 55-65, income level $40,000+, etc.
What do our customers value?	Perceived increased beauty given by hairstylist at a Reasonable price Easy accessibility
What will or should our business be?	Leaders in Design
Where is our preferred location?	Small strip centre, with ample parking
When is our service in demand?	Highest, evenings and weekends

These may be difficult questions to answer. But businesses, large or small, must continually analyze the answers to these questions to guide them in their business decisions.

The following are sample mission statements:

1. A Fictional Company

Brian's Book Barn will become the premier source of books and magazines for the Municipality of Ladbrokes and communities in the surrounding area. Our goal is to provide customers with a wide variety of choices and to promote reading in the community.

2. Canadian Tire

To be the first choice for Canadians in Automotive, Sports and Leisure, and Home products, providing total customer value through customer-driven service, focused assortments and competitive operations.

3. Telus

To be recognized as the premier Communications Company in the world. To help people communicate effortlessly.

4. Ballard Power Systems Inc.

We will be the First, Best, Highest Quality, and Lowest Cost Manufacturer of PEM Fuel Cells, creating investment value.

Setting Goals

The mission statement continually guides the growth of your business; but, company goals will provide you with specific targets to work toward.

Goals may include but are not limited to:

- Achieve x% market share by end of the first year
- Increase sales 5% each year
- Reduce customer complaints to 10% of all sales
- Ensure profit margin of 2% by the second year
- Generate sales of $100,000 by end of the second year

Your goals may be short- or long-term. You may consider breaking a long-term goal down into monthly or quarterly milestones. At each month or quarter, you can then determine if you are on track to reaching your goal. If you have not reached the goal, this gives you the opportunity to evaluate why. If you have, or exceeded your goals, you may want to determine if you can realistically support higher sales if this occurs during the next quarter, and adjust you milestones and goals accordingly.

Choosing your Market Strategy

Strategic planning sets the stage for the rest of the firm's planning initiatives. Many small businesses fail to outline a plan and run into cash flow or other problems as a result. Bankruptcy is the ultimate failure due to a lack of planning. To prevent this outcome, a strategic plan must be developed that provides a clear company mission, objectives and strategies for growth.

There is considerable overlap between company strategy and marketing strategy. The company exists to satisfy customers' needs and must continually evaluate the firm's ability to satisfy customers better than the competition.

Described below are strategies you can use to identify growth opportunities and increase sales for your business.

1. Market penetration
Selling more of your current products or services to present customers (or market segments), without changing the product or service. To increase sales, you may reduce prices, increase advertising, get your products into more stores and/or obtain better display locations.

2. Market development
Identify and develop new customers or new markets for your existing products or services. This could include a new geographic market or a different group of customers.

3. Product or service development
Offer modified or new products or services to existing customers. This may include new service offerings, service enhancements, and/or products in different styles, colours or sizes.

4. Diversification
Start or acquire another business, different from your existing business. A restaurant owner acquires a fitness studio.

Generally, there are three market-coverage options.

1. Undifferentiated
Undifferentiated market coverage is when a company goes after an entire market with one product that is mass produced. The key drawback to this form of marketing is the difficulty in today's marketplace to develop a product or service that satisfies all consumers. Also, because this approach targets the largest market segment, you may find yourself competing with many large firms for this segment. As an entrepreneur, you may find it difficult to obtain the necessary resources to compete with larger established firms.

2. Differentiated
This strategy involves targeting several markets and designing separate products for each. A good example of this is automobile manufacturers. Offering similar products to different market segments often achieves higher overall sales and a stronger market position in each segment, because the company is serving unique needs. However, reaching numerous market segments requires more focused promotional costs (since each market is different) and require varying levels of service. This strategy requires many resources which start-up companies may find difficulty assessing.

3. Concentrated
Many companies with limited resources use this strategy. A company chooses one market segment (a smaller market) with a focus on obtaining a higher share in that market. The risk of concentrating on a particular market is the possibility of strong competitors entering the market or the demand for your product/service decreases or diminishes. However, a company with a loyal client base and a strong market position may be able to utilize their resources and serve their market segment better than their competition, building a prosperous business.

Identifying your Customers

To develop a marketing program that helps you reach and meet the needs of your market, you must first identify you customers. A market profile identifies your customers. There are many ways to describe your customers, whether they are consumers or other businesses.

Consumers:

Consumers can be identified by a number of variables.

- Geographic
  - country, region (prairies), city, density (rural, urban), climate (pacific)

- Demographics
  - age (6-11, generation X, 65+)
  - gender
  - family size
  - family life cycle (age <35, single or married, no children; age >35, married, teenage children)
  - income
  - occupation (professional, manager, clerical, sales, homemaker)
  - education (grade school, high school graduate, university graduate)
  - religion
  - nationality, ethnicity

- Psychographic
  - social class (lower, middle, upper)
  - life style (leisure activities, exotic vacationer, saver)
  - personality (gregarious, authoritarian, ambitious)

- Behaviouristic
  - purchase occasion (household staples, special occasion)
  - benefits sought (quality, service, economy)
  - user status (non-user, ex-user, potential user, first-time user, regular user)
  - usage frequency (light, medium, heavy)
  - loyal (not, somewhat, devout)
  - readiness to buy (unaware, aware, informed, interested, desirous, intending to buy)
  - attitude toward product (enthusiastic, positive, indifferent, negative, hostile)

Business:
Businesses may be identified in much the same way as consumers. For example, a firm may identify a target market according to user status, usage frequency, location, attitude toward the product, etc. A company may further identify a market by the size of a potential client firm or its purchase behaviour.

When developing a market profile, the key is to find buyer characteristics that are related to the purchase of your product, i.e. parents with infants use diapers.

After you have classified potential customers, you can build market profiles and segment markets according to customer potential.

A clothing manufacturer has developed a number of market profiles, one each for toddlers, athletes, grandparents (for their grandchildren), teenagers and tourists. For the small start-up entrepreneur, targeting large diverse markets such as these is extremely difficult. To make your marketing efforts more manageable, it may be wise to choose one or two market segments to initially target.

Determining the best market-coverage option for your business will be based on your product/service (demand, resources, market share required for success, etc.)

Choosing a Target Market

Consider the following when choosing a target market.

Measurability
Can you identify numerically how many people/businesses are possible customers? Determine the actual number of potential customers in your targeted area.

Accessibility
Can you reach your target market by the means available to you (i.e. web site, advertising)? It is important to ensure you are able to promote and provide your product to your customers.

Size
Can you determine how much market share you require to sustain you business financially? The market you are targeting must be large enough to ensure that you are able to sustain a profit. A restaurant targeting children may find that its market is too small if it is located in a senior's community, which only has occasional children visitors.

Resources
Is your potential market reachable? You must have the resources and knowledge (or how to obtain the information you need) to effectively reach your market, initially and on an ongoing basis.

Market Positioning

Once you have determined your market segment(s), you must determine how you will position you products and services to make your customers aware of your offerings.

Positioning refers to how your potential customer views your product or service, often described as the image of the product or service. Your goal is to create an image that places your product/service top-of-mind for your intended customers. There are many ways a firm may position itself against the competition. (One company successfully positioned itself directly against its top competitor by using the slogan, "We're number two, so we try harder.")

To position you product or service, utilize the following:

1. Create a list of your competitive advantages.
Advantages may include higher quality for lower cost, or higher quality and more technical support.

2. Select the "right" competitive advantage for your product or service.
What you choose, or which "bundle of benefits" you choose, will depend on who else is offering the same position. Some competitive advantages may be too costly to develop, inconsistent with

other services or products, or simply not strong enough in the marketplace. The key components to developing a competitive advantage are:

- Determine what is most important to your customers.
- Ensure your company has the resources to promote and deliver these benefits.
- Provide the greatest perceived advantage over your competitors.
- Promote benefits competitors will find hard to match.

Once you have documented your competitive advantages, you can determine which benefits you want to use to position your company.

3. Communicate and deliver your company's position to the target market.
It is essential for all of your marketing materials to support the position or image you are creating. For example, if the company decides to build a position on better service, it must ensure excellent service is delivered. Along with hiring and training staff on the components of delivering superior customer service, the company's advertising and sales messages would consistently communicate its commitment to providing superior service.

A company must know its present and potential competitors. Examine their strengths and weaknesses. Then, selecting a market position that provides a competitive advantage will be clearer. Your overall position should emphasize those factors that your customers value most, and those which make you stand out from your competition.

Market Research

Research provides the information to meet the needs of your customers and determine your company's:

- target market,
- proper location,
- sales projections,
- product or service line,
- pricing strategy,
- advertising placements,
- credit policy,
- required working capital,
- appropriate retail and warehouse space,
- stocked inventory,
- required equipment and supplies, and
- employee complement

Where to find Information

For business people to make knowledgeable marketing decisions, they need accurate and up-to-date information. Market research is defined as the systematic gathering, recording and analyzing of data to determine the best marketing strategies for your goods and services. Its purpose is to help entrepreneurs make better decisions and avoid committing costly mistakes. The time and dollars spent on marketing research, regarded by many small businesses as frivolous, can be extremely valuable. This information may highlight unknown opportunities or expose possible risky situations.

The research process of assessing the market should provide useful information which will help focus your marketing efforts, providing insight into:

- present and future potential markets (what consumers are buying or prefer and possible future trends);
- strengths and weaknesses of your competition;
- economic forecasts; and,
- your own business (by becoming an expert).

In many cases this business information can be gathered at no charge. The following are sources which may have information for your industry.

- Government of Canada Publication
    - Statistics Canada, e.g. Market Research Handbook, Census publications, Family Expenditures in Canada
    - Industry Canada, Strategis web site

- Provincial Government Publications
    - Departments or ministries responsible for industry, trade and commerce, and those targeting specific sectors, e.g. agriculture, environment

- Periodicals and Books
    - Canadian Business Index
    - Financial Post Survey of Industries
    - Dun and Bradstreet Key Business Ratios in Canada
    - Sales and Marketing Management magazine
    - Advertising Age
    - Various industry directories

- Trade Associations and Other Publications
    - Canadian Advertising Rates and Data (CARD) lists all media in Canada and their rates
    - Canadian Media Directors' Council Media Digest provides basic information on the market and media habits of Canadians
    - Tomorrow's Customers (Woods Gordon) talks about trends in the marketplace
    - Trade journals for various industries provide specific information on trends, competition and happenings in the industry

- Trade shows are a great way to learn more about your competition and how they market their products or services.

- Other sources of information:
    - Board of Trade, City hall, Chambers of Commerce
    - Business or trade associations
    - Universities or colleges
    - Yellow Pages

Taking your First Research Steps

1. Monitor the business environment
You should be keenly aware of factors which influence your industry, and monitor the effects of these trends on your business. For example, monitor the economy. Will interest rates rise? Will the rate of inflation increase? How will these affect your business?

Governments impose many regulations (taxes, health regulations, and hiring practices) which can affect your operation. For example, imposing import quotas for certain products, such as textiles, could help manufacturers of such products within Canada, but may adversely affect any business involved in importing and distributing the product.

Similarly, there are social and cultural forces which affect the viability of a business' operations. Trends in the 1980s and 1990s have been toward an increased awareness of health and body care. This has resulted in the marketing of physical activity products (racquets, jogging wear, cross-country skis) and health food (wheat germ, granola bars, wild rice). Certain products or services, which are considered "fad" products, may remain on the market for only a short time (pet rocks, hula hoops). Entrepreneurs need to determine if their products or services will enjoy a long lifecycle, or if there are factors which may limit ongoing customer demand.

Political, economic and social forces must be considered for their potential effects on your business. Focus on energy consumption has led to the reduced demand for certain products (e.g. cars with V-8 engines, oil-fired furnaces), while it has contributed to increased use of others (insulation, weather stripping, diesel engines).

Entrepreneurs must be aware of such forces, the opportunities they create, and the ones they extinguish. Developments in such fields as economics, politics and technology should be monitored for their potentially negative or positive effects on your business.

2. Observe the competition
It is critical to learn about your competition. This and other research must be an ongoing activity.

Study your competitors. Visit their stores or the locations where their products or services are sold. Analyze the location, customer volumes, traffic patterns, hours of operation, busy periods, prices, quality of their goods and services, product and service lines, promotional techniques, positioning, product and service catalogues and other handouts. If feasible, talk to their customers and sales staff.

Consider how well your competition satisfies the needs of potential customers in your trading area. Determine how you fit into this picture and what niche you plan to fill. Will you offer a better location, convenience, lower price, extended hours, higher quality, and improved service?

Estimates of competitors' sales volumes and their market share should be made. Also, the reaction of competitors to new entrants such as yourself should be judged. Your analysis of the competition should include a synopsis of the reasons for their success. You want to know why customers are buying their products and services.

In some product and service areas, the existing businesses are so strong and well established it would be difficult to enter that market. For example, an entrepreneur would have great difficulty competing head-on with a large food store, such as Safeway. The entrepreneur would be better advised to offer a unique service such as a neighbourhood location and longer hours, which would provide more convenient service to potential customers.

3. Talk to your suppliers
Speaking with your suppliers will tell you a great deal about how your industry works and what trends are taking place in your market. Suppliers may be able to provide you with valuable information about pricing techniques and mark ups, the most popular lines and why they are selling, and why some competitors are successful. They may also provide you with information about generally accepted credit terms in the industry.

4. Talk to your current and potential customers
Speaking with your customers or potential customers gives you insight into what their needs are. They may indicate what they look for when purchasing your products or services, what they think of your competition, what price they might pay and what level of service they require. They are usually flattered and pleased to assist you in your research, hopeful you will be able to provide them with products or services that meet or beat their desires!

5. Surveys and focus groups
Surveys represent a formal means of gathering insight from your customers. Focus groups are an informal way of gathering information. They each have distinct advantages and disadvantages.

Surveys
If you have a specific information requirement and a definable audience, it is likely you can collect useful survey data. In order to use survey results to make business decisions, you must design a non-biased questionnaire. Doing so requires attention to detail and significant expertise. There are many good books available on questionnaire design and initiating a survey. However, if you are depending on the survey to assist you with a costly decision, you may want to consider hiring a professional marketing research firm. Surveys are typically used when statistical significance is required. Disadvantage: Survey design and implementation are usually expensive.

However, community colleges and universities have marketing management programs where students can be hired on a confidential consulting basis as part of their curriculum. The students do not have the experience of professional firms, but will often do a reasonable job at little cost. Do your homework before embarking on a survey. Assure you will get the information you require.

Focus groups
A focus group involves getting feedback from a specially selected group of individuals using controlled interview techniques. The process usually allows the participants to provide their opinions, come up with new ideas and brainstorm.

Focus groups are valuable for generating new concepts, getting feedback on proposed advertising or gaining insight into attitudes and opinions about a new product or service. Focus groups can be used to identify parameters for a formal survey. Focus groups require a skilled interviewer and selected participants based on given parameters (e.g. parents with infants <1 year of age). Professional firms can be hired to tackle the project for you. Disadvantage: Outspoken individuals can blur the opinions of others in the group. Reserved individuals may not share their opinions or ideas even if they strongly disagree with other people in the group.

The Marketing Mix

There are four important components of marketing. They are called the 4 Ps – product, price, place and promotion.

Marketing decisions are centered on these variables, which are known as the marketing mix. Poor decisions regarding even one of the 4 Ps can lead to business failure. A more thorough discussion of the Marketing Mix follows.

Product (or Service) Strategy

Looking to the customer for guidance is particularly important when deciding upon the specific product/service to be provided. The product or service offered by the company must be one that meets the needs of the customers, not one that satisfies only the producer. For instance, you may be a lover of blueberry-flavoured milk, but that does not necessarily mean that you should sell it in your store. There may not be a demand for such a product.

Be aware of the “total product concept” or the idea that you are selling more than just a physical product or service. Successful firms sell bundles of benefits, not just products or services. For example, a car dealer does not sell automobiles; the company sells reliable, individual transportation. Anti-lock brakes are a feature of an automobile; but the benefit, the reason that motivates people to buy anti-lock brakes, is safety. Similarly, toothpaste that removes stains (a feature) offers the benefit of white teeth.

The product or service includes offering a wide array of options to meet varying tastes, and often includes after-sales service. An entrepreneur’s approach to offering a “total” product to his/her customers should provide and advantage over the competitors.

The total product concept may be described as follows:

1. Core product

This is the benefit provided.

2. Actual products

This includes the tangible features of the product such as quality, styling, brand name, packaging, optional features.

3. Augmented product

This includes additional services and benefits beyond the physical (such as delivery and credit, installation, after sale service, warranty).

For example, consider the core product for a restaurant that prepares markets and delivers home-cooked meals. The core products (benefits) are taste and convenience. The actual products (tangible features) are home cooked, prepared meals with wholesome ingredients, packaged in a re-usable, microwave able casserole dish. The augmented products (additional services) are speedy delivery, acceptance of major credit cards upon delivery, and a guarantee the food will satisfy the customer or their money is refunded.

Different aspects of the “total product concept” can be emphasized to differentiate an entrepreneur’s product or service from the competition. Products can be differentiated from competitors by quality and durability, colour, odour/flavour, and by the level and type of service. For example, the five basic selling propositions for toothpaste are: taste, whitener, breath freshener, fluoride and price. All competitors advertise at least one of these features, sometimes more than one, to differentiate their product or service from others.

Types of Consumer Products

There are differing classification schemes that companies may use to help develop a product strategy. Non-durable goods are goods normally consumed fairly quickly such as soap, toothpaste and juice. Durable goods normally survive many uses, such as clothing, automobiles and camping equipment. Services are intangibles and include haircuts, tours and automobile repair shops.

Consumer products can also be classified according to how people buy them. There are four classifications generally used:

1. Convenience products

Consumers want these products to be readily available, and will not spend time searching for them. Examples are cigarettes, soft drinks and milk.

2. Shopping products

These are products that consumers are willing to spend time shopping for, in order to get the exact product they want. Examples are televisions, cars, and clothing.

3. Specialty products

Consumers make special efforts to obtain these products and will not accept substitutes. An example is Christian Dior fashions or Cuban cigars.

4. Unsought products

These goods are either new products which the consumer is not yet aware of or is not specifically shopping for at the time. Such products usually require a special kind of promotion to generate sales. An example is a set of encyclopaedias.

The classification of a particular product varies from person to person. What may be a convenience good to a wealthy person could easily be a shopping good to someone with less expendable income.

Understanding what type of product or service you have will assist in making decisions on how to market. For example, if you are selling a specialty good or service, your location may not be as important as other factors in your marketing mix. Why? Because, people will invest the time to obtain the good. However, you will need to let them know about you and where you are!

Packaging and Labelling

The packaging of products has grown in importance over the past decade. Packaging is part of the actual product. Besides being able to differentiate your products from your competitors by using different types of packaging, it is important to be aware of some of the packaging trends that can affect the demand for the products you offer. Due to advancing packaging practices, consumers are demanding more from packaging. Packaging trends include:

- recycled materials used to create the package, e.g. recycled paper;
- packages that are recyclable e.g. bottles, cans;
- more information (demanded by the consumer and government) on the labels; and,
- larger print on the labels, due to aging of some consumer markets.

The two latter trends have become an issue for some food processors. The more information they have to put on the label, the less room the have for design and displaying the product. In addition, changes require more investment and expertise to assist in the process.

Sometimes by changing the size, shape, colour, labelling and/or texture of a product's package, new or bigger markets can be identified for an existing product. For example, regular-sized juice boxes have also been made available in a junior-size, to fit in children's school lunch bags. BIC packages its disposable lighters in the different solid colours to appeal to consumers' various preferences. As a variation, one of BIC's competitors has chosen to package its disposable lighters in translucent coloured plastic instead, so that the amount of fluid remaining is evident to users.

Product and Service Life Cycle

Similar to people, products and services have life cycles. They move from birth, through a period of growth, to maturity, and then level off somewhat before declining toward their demise. The decision on whether or not to produce or provide a particular product or service should depend, in part, on what stage of the life cycle the product or service is in. Some products or services have a short life cycle (pet rocks), while others enjoy more prolonged lives (picture frames).

It is important to understand the life cycle concept, so the proper form of advertising and promotion can be used. Knowing the life cycle of your product or service can also help you determine if you need to redesign or drop a product line. There are four stages in the product or service life cycle:

1. Introduction

In this stage, the new product or service is launched. The first barrier to overcome is customer lack of awareness of the product or service. Because people are unaware of the product or service, sales may rise very slowly, and promotional costs will probably be high. Promotional emphasis is on introducing the product or service to your customer and attempting to have people try the product for the first time.

2. Growth

In this stage, sales start climbing. Presumably you are beginning to make a profit. This may attract new competitors to enter the market bringing new product or service features. The market will expand as more people buy the product, profits rise and prices remain stable.

3. Maturity

In this stage, sales peak to create high profits. However, an over abundance of suppliers leads to greater competition. Weaker competitors start dropping out.

4. Decline

In this stage, sales decline and more firms withdraw from the market. Prices are reduced; profits decline and weaker products and services are phased out.

Interestingly, a new innovation can take a declining product or service life cycle and generate a whole new life cycle. For instance, Dentifrice at one point was only available as a powder, and then toothpaste was developed to rejuvenate a whole industry. When you hear the claim "new" or "improved" the advertiser is trying to rejuvenate the product or service life cycle.

Person marketing

People are also marketable. Politicians, entertainers, sports figures and professional; such as lawyers, accountants and architects; market themselves. The objective of persona marketing is to get your customers to view the person being marketed as a celebrity or expert. Marketing people is similar to marketing other products/services. Through market research and analysis you discover the customers' needs, segment the market, develop the product/service then develop programs to value, promote and deliver the celebrity or expert.

Social marketing

Social marketing is generally used to seek the acceptance of a social cause or idea such as public health campaigns. The objectives may differ from the ordinary business, i.e. to make a profit, to ones focused on social change, which encourage understanding or trigger an action (write to your Member of Parliament). To promote social change, social marketers, follow the same approach as those marketing products, services, ideas, people or places.

Service marketing

Since each interaction with the customer is unique, service marketing requires more than the traditional 4 Ps of marketing. It also involves ensuring that employees in the company are all customer oriented. Employees must be trained and motivated to always ensure customer satisfaction. Interacting with the customer is key to good service. The customer will measure the quality of the service based on the quality of the interaction. For example, sales or service staff may have a strong customer orientation and desire to serve the customer, but they are held back by administrative nightmares that slow the service delivery, which decreases customer satisfaction. All employees must be committed to providing the marketing services which result in satisfied customers.

Since offering a service is mostly intangible, you cannot see touch or taste the service, the physical evidence that supports the service is important. For example, if you are providing expert, professional business advice, then your surroundings must reflect this type of service. The customer will look to the physical environment to provide some sort of tangible evidence. If your receptionist allows the phone to ring while she chats with a co-worker, your customer sees lack of customer service. On the other hand, if your office is neat, clean and tastefully decorated, your customer sees the professionalism you have promoted.

Pricing Strategy

Price is a very important factor in the marketing mix. It affects sales volume, profits, the actions of competitors, and the image of the product/service or store. Proper pricing is a prerequisite of success.

Pricing has two basic functions: (1) to enable a business to cover costs and make a profit, and (2) to motivate customers to purchase products or services. The marketing function with regard to pricing is to use a marketing mix so the product or service can command the best possible price. The business must be able to prosper and customers must perceive they have received value for their money.

Key Pricing Factors

The importance of pricing cannot be underestimated as incorrect pricing can often result in the failure of a business. New businesses often make the mistake of either charging too little or too much for their product pr service. To help you avoid making a pricing mistake, the following section outlines some of the guiding principles for determining price.

1. Perceived value

The customer's ability and willingness to buy strongly influences the price charged for your product or service. Ability to pay is determined by the customer's income level and where your product/service ranks on each customer's level of importance. A customer's willingness to buy is determined by taste, need and perceived value.

The customer may also have a perception of your product or service that may largely be attributed to its price. Test yourself: What is your perception of a diamond ring that sells for $100 versus one that sells for $1000? What is your perception of a meal that is $50 versus one that is $10?

You can determine the perceived value of your product or service by asking your customer how much they would be willing to pay for the same service in different surroundings. Or if you are contemplating adding a benefit to your product or service, ask them how much they would be willing to pay with the improvement. Restaurants can charge higher prices if they provide an atmosphere of elegance versus a fast food outlet. In any business, it is perceived value that decides the price customers are willing to pay.

2. Competition

Some business owners use the competition's prices as starting points for their own. If your product or service is an improvement, you can sometimes price it above the competition, as long as you communicate to your customers the reasons for the higher price (improved service, choice of colour). For example, some convenience stores generally charge higher prices than do large grocery store or retailers. They can do so because the benefit of convenience is valuable to their customers.

Caution must be exercised when attempting to price below the competition. This strategy could lead to a "price war," which could be hazardous if the competition has more financial resources to withstand a "price war" than you have.

If you do not have direct competition, you may be able to charge higher prices than you could otherwise. However, if the prices you charge are too high and your profits are exorbitant, competitors may be attracted to enter the market. Instead, keeping profits and prices at a reasonable level may discourage the entry of other businesses.

3. Costs

Your price must cover all costs of goods/services sold, including production costs of supplies, materials, fixed overhead, time/labour, and generate a profit.

Use this simple formula in setting a price (per unit):

Total Cost of Production per Unit + Desired Dollar Profit per Unit = Price per Unit

Businesses can set varying profit rates, for example 15 per cent profit on supplies and materials, 20 per cent profit on labour/time, and 25 per cent profit on overhead. These more complicated approaches to pricing usually emerge in response to the special needs of a particular business.

If your research reveals that similar products or services are available on the market at a cost much lower than what you could offer, you may have to either adjust your profit margin, the return you expect, or decide to provide enough specialized service or selection that the market will pay extra money for the additional service. Alternatively, you may be forced to conclude that you cannot afford to make this item or provide this service; and, look for something else with a better rate of return.

NOTE: Remember to document cost materials at their replacement prices, NOT at their original prices; include salaries as a business expense; include interest in your business cost calculations-interest that could have accrued had the money used for the company been invested elsewhere (i.e. a bank)-make allowances for future refunds, servicing, bad debts, amortization of capital costs of equipment or machinery.

Many retail stores use a simple mark-up system to price their products or services; using the cost of the product or service and adding a predetermined mark-up to this base. Mark-ups vary by product or service, determined largely by the sales volume of the product. The mark-up on large, low volume items (autos, appliances) is generally higher than on high volume goods (food items).

There may be situations when it is advantageous to set prices below cost. For example, stores lower prices drastically to clear space for new products or services or simply to move out products or services that are not selling. But, these are situational and happen under specific circumstances.

Break even pricing involves the firm determining at which price they will cover their business costs. The break-even point is where the price at a certain sales volume covers both variable and fixed costs.

In the following example, the only figure that changes is the price. It is determined that at a price of $18.00, selling ten units, the company will break even.

A	B	C	D	E	F	G	H
Units sold	Unit Price $	Total Revenue $ (A x B)	Unit Variable Costs $	Total Variable Cost $ (A x D)	Fixed Costs $	Total Costs $ (E + F)	Profit $ (C – G)
10	10	100	8	80	100	180	(80)
10	15	150	8	80	100	180	(30)
10	18	180	8	80	100	180	0
10	20	200	8	80	100	180	20

Alternatively, the price may be determined for a service organization, such as bookkeeping. The break-even may look as follows.

A	B	C	D	E	F	G	H
Hours	Price per Hour $	Total Revenue $ (A x B)	Hourly Variable costs $	Total Variable Costs $ (A x D)	Fixed costs $	Total costs $ (E + F)	Profits $ (C – G)
5	15	75	5	25	100	125	(75)
10	15	150	5	50	100	150	0
20	15	300	5	100	100	200	100
40	15	600	5	200	100	300	300

The only variable that changes in this example is the number of hours.

When using this method, you must consider the impact that price has on sales volume to realize the target profits and the likelihood that you will achieve that sales volume based on that price.

Pricing Techniques

Introducing a NEW product or service

When introducing a new product or service, two approaches could be followed: price skimming and penetration pricing. Price skimming is setting a high price to skim maximum revenues for people willing to pay. The result is fewer but more profitable sales. As sales slow and competitors enter the market, price is lowered to draw in the next price sensitive buyers. Personal computer manufacturers used this method when first introducing the PC to the general population.

Penetration pricing is the setting of low initial prices to achieve sales quickly and to attract a large number of buyers. This is used when the market is price sensitive or where a low price might keep out the competition.

Image and psychological pricing

As previously mentioned, the prices charged for products or services convey images to the customer. Many consumers equate price and quality and, in some cases, can be enticed into buying at higher rather than lower prices. Thus, a prestigious jewellery store can sell items at a higher price than a department store jewellery counter. Stores following low price policies may not attract some people. These consumers will not buy low price products or services, as they may equate low price with low quality and/or lack of service components they value.

Other elements of psychological pricing include multiple pricing and odd pricing. Items will generally sell better if offered in multiple units (3 for 99¢) rather than in single units (30 cents each) and odd pricing, $49.95 instead of $50. However, some stores do not adjust prices in this manner; as they feel it contributes to a low quality “bargain” image.

Loss leader pricing

Supermarkets and department stores often use this pricing strategy. It involves selling a few items at low prices (even at a loss) in order to attract customers to the store. This strategy presumes consumers will purchase not only the loss leader items but other products and services as well.

Place Strategy

Moving a food from manufacturers to consumer is sometimes a costly task. It is critical that the proper channels are utilized and that the small business owner is able to manage the various middlemen appropriately. Selling a food product to the consumer with the use of a food broker, warehouse and retail chain is much different than selling the services of a financial planner where the product is direct. The following section reviews the place strategy with particular emphasis on the retailer.

Retailers

Location for the retailer is a critical factor. It should preferably be in an easily accessible, high traffic area. For a retailer, the first decision is the choice of the town/city. Certain businesses (golf courses, service stations, motels) can be located along highways, but generally retail outlets are located within concentrated population areas.

Most people starting a small business are probably more concerned with choosing a site within a certain town or city. There are a number of location choices that may be available to the prospective retailer. Obviously, larger centres have more choices in terms of location than do smaller communities. These choices consist of:

1. Shopping centres

Shopping centres are relatively expensive per square foot, but offer traffic flow, parking, extended business hours and accessibility.

2. Central business district

Generally found in the older sections of towns/cities, these areas have good pedestrian traffic, and are well serviced by transit; however, parking may be a problem.

3. Commercial strip

Retail outlets located on a street running into a business district, its advantages are high vehicle traffic and is usually well suited for restaurants, service stations and hotels.

4. Store clusters

In many neighbourhoods, small groups of stores can be found. Types vary, but usually they include shoe stores, drug stores, convenience stores, banks, hairdressers and sometimes bakeries.

In choosing a location, considerations include:

1. Cost

Locations with high traffic volumes and other advantages are generally the most expensive (shopping centres and downtown core). Choosing the proper location is crucial to most retailers; however, cost should not be the only determining factor in choosing a location.

2. History of the location

If moving into a formerly occupied location, questions should be asked about its ex-occupants. What type of store was it? Why did they vacate? Were they successful?

3. Traffic flow

The number of potential customers passing by a location is important for many types of retail businesses. Traffic flow in shopping centres is higher than in smaller malls, largely due to the drawing power of the larger number of stores and larger retailers. Some streets have a higher traffic volume than do others, either in pedestrian or vehicular form. Research the traffic flow to assure a high proportion of your target market shop at this location.

Proximity to your target market is an important consideration, as the location chosen should be one that offers the greatest accessibility to that target market. If you sell clothing for teenagers, you would not want to locate in an area of town largely populated by elderly people without children. Thus, the site and characteristics of the area population are key considerations.

4. Legal restrictions

Some locations are not available to the retailer due to zoning regulations. Information can be obtained from city planning and township offices.

5. Services available

Depending on the type of business being established, required services may not be available.

6. Parking accessibility/facilities

The accessibility of the location must match the needs of your target market. If customers will be arriving by car, parking facilities need to be available. If customers walk, sidewalks should be in good condition. Proximity to transit service would be a factor in larger centres, especially if the target market generally travels by transit or if parking facilities are poor/ inadequate.

7. Outlook for the area

Some assessment of future trends for the area should be made. Are people moving away, or are they moving in? Are any other stores being considered for construction? Are there new highways or bridges being build which will affect the traffic flow positively or negatively?

8. Psychological barriers

Some areas may suffer from a poor reputation such as high crime or undesirable neighbourhood, thus severely restricting traffic flow.

Manufacturers

Manufacturers are concerned with physically distributing their products to ultimate users, whether those users are consumer or industrial. There are a number of different methods of distribution or channels that can be used:

1. Direct channel

This method moves goods directly from the manufacturer to the consumer, usually either on a door-to-door or mail order basis.

2. One-stage channel

This method moves products from the manufacturer, through retail outlets, to the customer. In some cases, the retail outlets are fully owned by the manufacturer, although this is generally uncommon.

3. Traditional channel

This most common method of distribution is from manufacturer, to wholesaler, to retailer, to consumer.

4. All-aboard channel

This method includes an agent acting as an intermediary between the manufacturer and wholesale outlets.

Middlemen are often used by manufacturers, because of their expertise in marketing and distribution. The advantage is that manufacturers do not have to establish their own sales force, network of contacts and specialty areas. Instead, they can take advantage of the existing channels of distribution. The middlemen often perform marketing tasks and functions more efficiently than a manufacturer who lacks the resources.

There are a number of guidelines for choosing a method of distributing your product.

1. Begin with the customer and work back to the producer. Determine the most efficient and effective method of distribution, keeping the customer in mind.

2. There should not be weak links. Weaknesses in the process will result in customer dissatisfaction, i.e. late shipments, unreliable product quality.

3. The cost of distribution must be considered. The more levels involved in the channel, the higher the potential cost to the consumer, since each agent will take a profit.

4. Control over the product will be lessened when there are more links between the manufacturer and retailers.

5. The nature of the market: type (consumer goods vs. industrial goods), size, location, volume, customer habits.

6. The product's characteristics are important (shelf life, durability).

The physical distribution of the product involves five basic decisions:

1. Inventory locations

The number and locations of warehouses must be determined on the basis of cost, the nature of the market and the nature of the product. A centralized system may be better controlled and may be more efficient in materials handling.

2. Maintain an inventory control system

When deciding how much inventory to stock, the cost of warehousing inventory has to be weighed against the cost of lost sales. The cost of keeping an inventory is usually high in terms of financing costs and storage space.

3. Establish a materials handling system

The warehouse and equipment should be carefully selected, to minimize handling costs, which can be quite substantial.

4. Establish procedures to process orders

Such procedures include setting policies about credit, invoice preparation and collections. Service could be the determining factor for retaining customers in a competitive situation, so mistakes and slowness should be avoided.

5. Select a mode of transportation

In general, the basic transportation modes are air, highways, rail, water and pipeline. In many remote areas, moving goods by highway is the only alternative. However, as the distance products are shipped increases, the greater the likelihood that more than one transportation method may be necessary.

The choice of an appropriate channel for distribution is dependent on a number of factors, ranging from the capability of the manufacturer, to the nature of the product, to the characteristics of the market. Convenience goods (cigarettes, candy, magazines) must have wide distribution, since consumers will not go out of their way to buy them. However, specialty goods may have a more limited distribution (one retail outlet) as people may be more willing to make an effort to obtain the product.

The key is to have products in the right places; so, they are conveniently available to your target market. If you are selling granola bars, you probably should not be distributing them through only one retail outlet. If you are selling Lada automobiles however, you do not have to sell them on the street corner. Sometimes the consumer will demand a product be made available. Do you know of a food store that could afford not to stock Campbell's soups?

Promotion Strategy

Promotion is the activity of informing, persuading and influencing the consumers' purchase decisions. There are four general types of promotion activities: (1) advertising, (2) sales promotion, (3) publicity and (4) personal selling.

The type and scope of promotional activities that you need to undertake will depend on what the promotion is intended to do. There are a number of reasons for promotional activities.

- Introduce a new product or service.
- Enter a new market.
- Obtain a new dealer outlet (for manufacturers or distributors)
- Increase or maintain sales.
- Build or maintain the image of the business and/or product.
- Support other selling efforts.
- Reach customers inaccessible by salespeople.
- Educate the public.

The choice of promotion activities used will be determined by a number of factors, including:

- product type
- market segment
- stage in the life cycle
- competitive activity
- objectives
- distribution channels utilized

Advertising

There are three general purposes for advertising:

Information

If you are opening a new store or introducing a new product, you must build consumer awareness of your existence. Promotion of a new store(s) or products, which are early in their product life cycle, should be geared toward providing information.

Persuasion

Businesses attempt to persuade potential customers that they have a better product or service than the competition (for example, the Pepsi Challenge).

Reminder

Businesses simply remind consumers that the product or service is still available, and where they can purchase it. Coca-Cola, long distance phone services and milk are three producers which basically use reminder advertising.

How much will you spend?

How much to spend depends on the stage of the product life cycle, market share, competition, required advertising frequency and product differentiation.

New products typically need a substantial budget to build awareness and influence consumers to try a new product. Building market share and taking share from competitors usually takes greater spending than simply maintaining market share. If there are a lot of competitors advertising, then more funds may be required “to be heard” in all the clutter, through increased frequency. The more often you need to repeat you message the more financial resources will be necessary. If your product is different from your competitors, but only slightly, more funds may be required to highlight the differences.

There are a number of ways to decide how much you should spend on your promotional budget. Commonly used methods include:

1. Fixed percentage of sales

This is very simple method of determining promotional expenditures, but it is illogical. It makes promotion the result of sales, not the cause. Its simplicity, however, may make it appropriate for many small businesses.

2. All you can afford

This “blind” approach may work in some case; but, it establishes benchmarks for the future that may be inaccurate. The position focuses solely on financial ability and not on best value.

3. Matching the competition

Figures available in trade journals, etc. for a “typical” business in your industry can give you a useful starting point for judging the appropriateness of your spending. There are drawbacks to this approach, as each business has its peculiar needs which must be met, and to follow the industry average may be simplistic.

4. Achieve sales objective

Promotion budgets for upcoming periods are decided according to the sales objectives. A promotion budget is set which will allow the desired sales level to be met.

Advertising mediums

The success of any advertising will depend to a large extent on the ability to identify the target group properly and to outline objectives clearly. In selecting an advertising medium, consideration must be given to exposure to your target market. In advertising, rarely, does the advertiser want to pay for the message to reach everyone. A store owner, targeting a particular market in his or her neighbourhood in The Pas, MB, would not want to advertise in MacLean's. The message would reach only a small percentage of the store's target market. It would be more logical, less expensive and more effective, in terms of reaching that market, to advertise in the neighbourhood newspaper. This assumes, of course, that the target market reads the newspaper!

Again, remember the target market. Sporting goods stores advertise in the sports section; because, their target market reads that section of the paper.

The following chart lists the various advertising mediums and briefly outlines their key advantages and disadvantages.

Type	Advantages	Disadvantages
Newspaper	• Flexible • Timeless • Good local coverage	• Short life • Poor reproduction quality • Good for some products only
Television	• Sight, sound, motion • High attention • High reach	• High cost • High clutter
Radio	• Mass use • High geographic/demographic selection • Low cost	• Audio only • Lower attention than TV • Non-standard rates • Minimum exposure • Passive listening • Difficult to document specific information
Outdoor	• Flexible • High repeat exposure • Low cost • Low competition	• No audience selection • Creative limitations • Difficult to document specific information
Magazines	• High geographic/demographic selection • Credibility & Prestige • Long shelf life	• Long ad purchase time • Some waste circulation • No guarantee of position in magazine • Rates expensive
Direct Mail	• Directed to targeted customers • Lower waste than mass mediums	• Expensive per unit • Can be easily lost in other mail clutter

Radio and television advertising can be more costly than newspaper. Both mediums are monitored closely by the Bureau of Broadcast Measurement, so statistics are available on the audiences that are tuned into various programs. It is important to broadcast during times when it is most likely that members of your target market will be tuning in.

Direct mail advertising is costly on a per unit basis; but, it can be directed specifically toward your target market. Flyers can be distributed in neighbourhoods around the store, or brochures can be sent to potential retail outlets. It is a selective means of advertising, one that reaches the target market effectively.

Outdoor advertising (billboards, signs) is usually low cost per viewer and highly flexible. It is most suitable to those types of businesses which otherwise would have difficulty reaching potential customers and require large number of customers. Service stations, motels, hotels, which cater to highway traffic can benefit through outdoor ads.

Magazines may reach a wide market segment, but that may include an extended reach outside your area. Companies should advertise in national magazines only if they are trying to reach people across Canada with their message. Trade journals (i.e. Canadian Jeweler, Canadian Grocer) reach more specific groups, so manufacturers and wholesalers may want to advertise in them. Trade journals are read not by consumers but by those in the trade, so retailers would probably not advertise in these journals. However, retailers may find it beneficial to advertise in regional or provincial magazines, which are subscribed to by their target market (i.e. business magazine targeted to professional with incomes of >$50,000 annually).

You should consider more than one form of advertising, as research shows that combining different forms of advertising greatly increases it effectiveness.

Sales Promotions

Sales promotions are short-term incentives to encourage sales of a product or service. Consumer promotions include samples, coupons, rebates, contests and demonstrations. Trade promotions include buying allowances, free goods, and cooperative advertising and dealer sales contests. Sales force promotions include bonuses, contests and sales rallies.

Trade shows are also a sales promotion tool. Trade shows are an excellent means to show your product, meet new buyers, learn more about the competition, and monitor changes in your industry.

Publicity/Public Relations

Publicity is public exposure of programs and activities of organizations. It can be purchased; however, most publicity is gleaned through news releases, feature stories and editorial comments. To obtain this exposure for your business, it can be helpful to research effective campaigns/events of others in a related industry.

Public Relations involves promotion of your corporate image and identity. This may include hosting events to promote your product/service. Good work or service provided by an organization goes a long way to increase one's reputation. Remember, word-of-mouth from a satisfied customer is one of the most persuasive forms of promotion.

Personal Selling

This type of promotion involves a direct, face-to-face relationship with the customer. It includes explaining the product or service, in an attempt to persuade the customer to buy. The degree of personal selling required varies from product to product, but is particularly applicable when the product or service:

- requires demonstration or is new and unfamiliar to the buyer (a new line of herbal remedies);

- involves a major expenditure and is purchased infrequently (windows, cars, furniture); and
- has a high unit price that requires security (jewellery).

Personal selling can be business to consumer or business to business. Customer service is a function of personal selling. Customers who have unpleasant experiences with sales staff, products or services are not only likely to stop patronizing the store; they are also likely to give the store/supplier adverse publicity. Customers are more likely to tell other people about a bad experience than about a good one.

Planning your Promotional Activities

Most businesses, regardless of whether they are large or small, typically try to get the attention of potential customer in a variety of ways.

The challenge of business owners is to determine what the most effective methods are for promoting their products and services. There is not a simple method for planning promotional activities. It varies by the newness of you company, industry, the strength of the competition, the characteristics of the product or service you are selling, and your available resources of money and time.

However, by having a clear understanding of the characteristics of your customers (where they live, their age categories, typical media listening or reading habits, etc.), this will guide you on where to reach your customers. The basic question to ask yourself is, “What promotional approaches, that I can afford, will reach the highest number of my customers?” This fundamental rule should help you to target your selection of appropriate promotional activities.

As a starting point, look at the promotional activities being practiced by your competitors. Chances are good they have learned from experience what works and what does not work for promoting themselves.

Monitor the sales results of every promotional activity you undertake; and, ask new customers how they heard about you. This will give you some insight into which of your promotional activities should be continued, discontinued or strengthened.

Some examples of small business promotional activities:

Specialty food store

A new, small specialty food store spends $3,000 per year on advertising activities. Also, the business owners spend time on a variety of promotional efforts. A typical year of promotional and advertising activities includes the following:

- appearances on local television cooking shows,
- direct mail package to neighbourhood with coupons as incentives to buy,
- food gift baskets as donations,
- food donations to local youth shelter,
- instruct food classes (demonstrations),
- personal sales calls to restaurants,
- radio advertising, and
- store tours for women’s groups and schools.

By monitoring their store's sales results, the owners have found that the use of coupon books, direct mailings to their customer lists and store tours have been particularly useful for their type of business.

Sales Forecasting

Sales forecasting is an ongoing challenge for large and small businesses. For the start-up it is a particularly frustrating task since the firm does not have past sales projections as a starting point. Thus, many times a "best guess" becomes the company's estimate. However, there are a few things start-up and small businesses can do to ensure sales forecasts are reasonable and realistic, making sales forecasts a practical tool for business planning.

Remember, sales forecasts are used as a guide, thus as fluctuations occur in your sales volumes, your forecast should reflect these variations. While developing and monitoring your sales forecasts, you may find highs and lows you did not expect. Analyze and use this information when updating and projecting future forecasts.

Since you will be using your sales forecasts to project other business initiatives, it may be helpful to use three various prediction figures, conservative, moderate and ambitious.

Factors that may affect your sales forecast:

- External:
  - seasons and weather
  - holidays
  - special events
  - competition, direct
  - competition, indirect
  - external labour events
  - productivity changes
  - demographic shift
  - births and deaths
  - fashions or styles
  - population changes
  - consumer earnings
  - political events

- Internal:
  - product changes, style, quality
  - service changes, type, quality
  - shortages, production, capability
  - promotional effort changes
  - sales motivation plans
  - price changes
  - shortages, inventory
  - shortages, working capital
  - distribution modes/pricing
  - credit policy changes
  - labour disputes/shortages

Purpose of Sales Forecasting

An accurate sales forecast affects all aspects of the business. If your company produces a product, it must establish production quantities, scheduled production times, while focusing on keeping inventory cost minimal. Also, determining the amount to purchase and when may save the company money when negotiating prices. An accurate sales forecast is key to determining promotional scheduling, cash flow requirements and how many people (subcontractors or employees) will be required to meet the sales target. Through planning, substantial cost savings can be realized if the sales forecast is within range.

Developing a Sales Forecast

1. Determine industry potential

Consider your geographic target market and investigate its potential size. It is easier to estimate market size based on geographic or demographic characteristics than life styles or buying decisions. Use this information as a starting point. Use the information you have and estimate the potential size of your market within the locale you are targeting. Further segmentation is important, but should be analyzed in your marketing research and projections.

2. Determine your firm's sales potential

Figure out the maximum limit your firm can produce or provide in terms of sales. If you are a one-person operation, you must estimate the maximum number of hours you will be able to produce, deliver and sell the service. Remember to factor in time for sales and administrative duties, which are not actual sales. Decide how many hours a day and how many days you are willing to work. Subtract time for sales, developing promotional material, planning, bookkeeping and other administrative tasks. The remainder is the time you have available to actually provide the service. For example:

Hours available/day:	10 hours
Days/week	x 6 days/week
Total hours available/week:	60 hours/week

Subtract:

Business development	8 hours/week	
Promotional activities	5	"
Bookkeeping	2	"
Planning	2	"
Administrative	8	"
Total	25 hours/week	

Billable Hours: 60 – 25 = 45 hours/week

Next multiple this figure by the number of weeks per year you will work and your hourly rate. This gives you the potential total sales figure for the year.

45 hours/week x $20/hour x 50 weeks/year = $45,000

This is the basis from which you are able to develop your sales potential – the upper limit for the firm based on production and marketing potential. This figure estimates what the firm could actually sell if the marketing strategy is implemented without flaw and the environment in which the firm operates is stable and predictable.

3. Determine the Sales Forecast

Next, develop a realistic figure. This sales forecast takes into account an uncontrollable, unstable environment and margin of error in the implementation of marketing campaigns.

At the end of this process, you should be closer to determining if this is a viable target market and if it is sustainable over time.

Making a sales forecast involves estimating by month for 12 months the anticipated number of units (or hours), sales price and total sales for the stated period of time.

Number of units sold x sales price per unit = total sales forecast

Remember, using the example above, the maximum amount that the firm is able to produce is $45,000 so the sales forecast will fall below that range.

Typically, a business does more than one sales projection. Often firms, particularly start-ups will develop conservative, moderate and ambitious projections. If your company offers more than one product or service each will need individual sales forecasts.

Sales Forecasting Tips

- Determine/hypothesize the share of the market your competitors own.
- Consider the seasonal nature of your business – account for slower months.
- Typically start-ups will have low sales during the first six months to one year.
- Thoroughly analyze your target market in terms of size, willingness and ability to buy.

Sales Forecasting for an Existing Business

Sales revenues from the same month in the previous year make a good base for predicting sales for that month in the succeeding year. For example, if the trend forecasters in the economy and the industry predict a general growth of four per cent over the next year, it is acceptable for you to show each month's projected sales at four per cent higher than your actual sales the previous year. As sales forecasts are not equal for each month, your four per cent increase should not be allocated evenly for each month. Peak sales months will likely allocate a higher percentage.

Credible forecasts can come from those who have actual customer contact. Get the salespeople closely associated with a particular product line, service, market or territory to give their best estimates. Experience has proven that grass roots forecasts can be surprisingly accurate.

Sales Forecasting and the Business Plan

Summarize the data after it has been reviewed and revised. The summary will form a part of your business plan. Sales forecasts for the first year should be presented monthly, while forecasts for the next year two years should be presented on a quarterly basis. Get a second opinion. Have the forecasts checked by someone else familiar with your line of business. Show them the factors you have considered and explain why you think the figures are realistic.

Your skills at forecasting will improve with experience, particularly if you treat it as a living document. Review your forecast monthly, insert your actuals, and revise the forecast if you see any significant discrepancy that cannot be explained as a one-time only situation. If you continually monitor your sales forecasts, your forecasting technique will rapidly improve and your forecasts will become increasingly accurate. This section outlines some simple methods of forecasting sales by using easy to find data. Books containing simple and sophisticated techniques of forecasting sales can also be found in libraries and in the business section of most bookstores.

Research, Research, Research

There are many sources of information to assist with your sales forecasts. Some key sources are:

- competitors
- neighbouring businesses
- trade suppliers
- downtown business associations
- trade associations
- trade publications
- trade directories
- Statistics Canada

Marketing Services

Do you market a service the same way that you market a product? There are a number of similarities between marketing a service and a product; however, their differences are noteworthy.

Differences between Products and Services

Intangibility: Services are intangible. Unlike physical products, they cannot be seen, tasted, felt, heard or smelled before they are bought. To reduce uncertainty, buyers will look for signs or evidence of the service quality. Customers will draw inferences about the quality of the service from the place the service is delivered, such as the office environment. They will also measure the quality of service based on the people. This includes how they deliver the service and interact with the customers along with their appearance. Are they professional, dressed appropriately, neatly groomed, happy and eager?

Due to a service's intangibility, service providers need to add tangible benefits to the services they provide. Product providers, on the other hand, offer tangible products and work to differentiate their product by promoting intangible benefits, i.e. excellent customer service, liberal return policies.

Inseparability: Services are typically produced and consumed at the same time. This is not true of physical goods that are manufactured, put into inventory, sold later, and consumed even later. If the service is rendered by a person, the person is part of the service. Since the client is also present as the service is being offered, provider-client interaction is a special feature of services marketing. Both the provider and the client affect the service outcome. For some services such as consulting and teaching, the person is the service.

Variability: Services are highly variable, as satisfaction depends on who's delivering the service along with where services are provided. Service buyers are aware of this high variability and frequently speak with others before selecting a service provider. Continuous monitoring of customer satisfaction through suggestion and complaint systems, customer surveys, etc. will help you detect and correct potential problems.

Perishability: Services cannot be stored. The perishability of services is not a problem when demand is steady, because it is easy to staff the services in advance. When demand fluctuates, service firms have challenging problems. For example, public transportation companies must own much more equipment because of rush-hour demand than they would if demand were even throughout the day.

Managing Differentiation

Service marketers frequently complain about the difficulty of differentiating their services from those of competitors. To combat this, the service company can add innovative features to distinguish its offers. One problem, however, is that most service innovations are easily copied, and few can sustain a competitive advantage for a substantial length of time. Still, the service company that regularly researches and develops service innovations will likely gain a succession of temporary advantages over its competitors and, through earning an innovative reputation, may retain customers who value these features.

Service companies can also differentiate themselves and their image, specifically through symbols and branding. The Royal Bank, for example, adopted a traditional lion symbol to convey an image of reliability.

Managing Service Quality

One of the best ways to differentiate your service firm from your competitors is to deliver a consistently higher quality service. The key is to meet or exceed your customers' service quality expectations. Customers expectations are formed by their past experiences, word-of-mouth, and through advertising. Customers choose providers on this basis, and after receiving the service, they compare the perceived service with the expected service. If the perceived service falls below the expected service, customers lose interest in the provider. If the perceived service meets or exceeds their expectations, they are likely to use the provider again.

To succeed, service providers need to identify the level of service quality customers expect. Unfortunately, service quality is harder to define and judge than product quality. It is harder to get agreement on the quality of a haircut than on the quality of a hair dryer. Yet, customers will make judgements about service quality; and, service providers need to know customer expectations in order to design effective services.

According to marketing researchers, there are 10 major determinants of service quality. These are:

1. **Access:** The service is accessible in convenient locations at convenient times within an acceptable period.
2. **Communication:** The service description is understood by potential consumers.
3. **Competence:** The service is delivered by employees who possess the required skills and knowledge.
4. **Courtesy:** Employees are friendly, respectful and considerate.
5. **Credibility:** The company and employees have a reputation for being trustworthy and customer service focused.
6. **Reliability:** The service is performed with consistency and accuracy.

7. **Responsiveness:** Employees respond to customers' requests and problems in an acceptable time period and with acceptable resolutions.

8. **Security:** The service is deemed safe. Customers are informed of any potential dangers.

9. **Tangibles:** Service quality is determined by tangible benefits (new hair style, clean car)

10. **Understanding/knowing the customer:** Employees understand the importance of meeting customers' needs and providing individual attention.

Marketing on the Internet

Benefits of Marketing Online

The benefits of marketing on the Internet include:

Increased market reach: The Internet offers firms a global online marketplace that extends far beyond the traditional geographic markets serviced by physical location limitations.

More customers driven to existing channels: The Internet can be integrated into a firm's overall marketing strategy to help increase customer traffic at existing locations.

Improved customer service: Use of the Internet can contribute to highly effective two-way communication between firms and customers, serving as an extension of existing customer service programs.

Enhanced market research: The Internet can serve as a market research and product development tool for firms through the use of online surveys, chat groups and feedback forums, enabling retailers to obtain data on their customers' preferences, ideas and attitudes.

Reduced costs: Depending on the nature of a firm's existing operations, the Internet can provide cost savings through lower inventory, transaction, customer service, administration, and/or communication costs.

Mass customization: The Internet can provide firms with a more efficient and profitable means of processing orders and configuring products to suit the specific needs of each customer. This, in turn, allows firms to optimize their inventory management practices.

Development of one-to-one marketing relationships: The Internet can enhance a firm's ability to target customers with specific marketing messages, to better interact with them on an individual basis.

Value-added applications: A powerful feature of the Internet is the ability to capture information in a relational database that can be used to provide value-added services to customers. Information can be provided on related products or services based on a customer's particular preferences. For example, your site can provide links to other Internet sites that may be of interest to your customers.

Defining Objectives

The objectives you set for your Internet site will determine how you will integrate your site with your existing operations. For example, if you are attempting to sell through the Internet (i.e. create a new distribution channel), the site you develop will be geared toward presenting your products/services and will include a purchase order function. On the other hand, if your objective is to build awareness, your Internet objective will likely be to inform Internet users about your company, your brands and your products/services (a promotional tool). The most critical element is to have a clear and concise statement of your Internet objective(s) as they relate to your business objectives.

Implementation Strategies

In setting the objectives for your Internet site, your approach should be shaped by the five primary functional applications the Internet can provide:

- information gathering
- communication
- entertainment
- improved Customer Service
- transactions

The following are some examples of objectives and overall strategies:

- Increase your company's revenues by selling from a secure, transaction-capable Internet site.
- Increase awareness of your company by developing an information-based Internet site.
- Increase the awareness of selected operational aspects within your company by developing a communication- and information-based site that features specific marketing programs including (but not limited to):
    - new product lines/merchandise/services being carried/offered in stores;
    - recent store acquisitions, renovations or expansions;
    - new and existing store locations and hours of operation; or
    - in-store or other promotions targeted exclusively at Internet users (e.g. using electronic coupons to drive store traffic).

Measuring Success

Once you have selected your objectives and strategies, you will need to define measurable goals to monitor, on an ongoing basis, the success of your Internet site. Some of these measures include:

- number of site visitors
- amount of time a visitor spends at your site
- click-through rates
- the number of pages visitors view, per visit

You should also measure your site's success based on traditional business measurements. For example, return on investment can be measured if you can quantify the incremental revenue gains your company is directly achieving from your Internet site. Other examples include the number of newly generated (physical) store visits from new customers, improved customer satisfaction levels, higher in-store closure rates, increased frequency of store visits, or other retail ratios and measurements.

By determining your evaluation measurements, you will begin to define your Internet site's functionality. For example, if you want to measure increases in (physical) store visits you may want to use electronic coupons to help identify customers who decided to visit your store as a direct result of visiting your Internet site.

Allocating Resources

For traditional businesses to achieve success on the Internet, it is best to view the Internet as an extension of your existing operations. In addition to the resources that are typically allocated to maintaining a physical store (e.g. maintenance, repairs, staff training, and merchandise mix) you also need to allocate the costs associated with maintaining an Internet site (e.g. money, staff time, technical skills) in your budget.

Checklists and Helpful Tips

These checklists are provided as general guidelines to highlight the main steps involved in the development and maintenance of your Internet site. You can customize these checklists to better suit your company's specific needs.

√ Plan your Internet site

- Establish site objectives and strategies.
- Determine you site goals and components to be measured.
- Develop the financial plan/budget for your site, including capital expenditures, operating and maintenance expenses.
- Determine the staff and management resources needed to develop and maintain your site.
- Determine financial performance measurements to be used (if any) to evaluate your site's viability.

Always, develop the site with your target market in mind.

When developing you site's content, consider the following and how the site will be used for:

- merchandising
- marketing
- customer service
- technology use
- product selection
- competition
- customer
- service/product integration

Plan your site's functionality in terms of:

- complexity
- ease to use
- graphic intensity – easy and speed of downloading
- plug-ins e.g. sound, video
- degree of interactivity
- tracking users

Always remember to consider your target market and their hardware/software capabilities and knowledge of the Internet.

√ Develop your Internet site

- select and register your domain name(s)
- determine your site hosting specifications (internal, external hosting)
- hardware, software, server platform
- if external, who will provide Internet services

√ Determine the look and feel of your site

- corporate branding
- professional image and design
- use of colour, graphics, logos
- overall flow, tone
- use of interactive tools

√ Determine outsourcing or internal development priorities

- hosting
- design
- content creation
- programming
- testing
- maintenance

√ Register with search engines

- major content providers (e.g. Sympatico)
- geographic specific (e.g. CANOE, MyBC)
- industry-sector specific
- identify and create relevant hypertext links
- select appropriate meta tags and descriptions for your site
- establish relationships with related sites (e.g. Internet malls, search lists and engines, hypertext links to other sites)

√ Plan transaction capabilities

- Determine the extent of your site's selling functions:
    - products/services offered
    - additional items offered within product lines
    - merchandise presentation methods (e.g. catalogues)
    - types of ordering methods (phone, fax, e-mail, online)

- Determine acceptable payment methods
    - credit cards
    - debit cards/bank cards
    - cash on delivery (C.O.D.)

- Establish site security

- Determine order fulfillment process

√ Develop post-implementation and ongoing maintenance approaches

- update site content (preferably at regular intervals, so customers know when to check back for updated information)
- update site design
- manage functionality on your site
- gather and analyze your site user information. Develop new and improved products/services based on your key findings.

√ Market and promote your site on and off the Internet

- advertising: traditional and Internet media
- promotions (e.g. electronic coupons)
- print address on all promotional materials (business cards, brochures)

√ Helpful tips

- Have a clear purpose.
- Communicate a central theme.
- Provide customers with choices.
- Use technology cautiously.
- Encourage participation by visitors.
- Track site visits.
- Maintain and update site content, frequently.
- Strive to capture and sustain interest.
- Use an effective domain name.
- Reinforce your brand and corporate image.
- Make it easy to navigate.

√ Things you need to know

- where the site will be hosted
- what platform the server is running
- how much disk space is available
- how fast the Internet connection is
- what features the Internet server supports
- top 50 marketing resources on the Internet