DOCUMENT RESUME

ED 228 522 CE 035 716

AUTHOR	Ashmore, M. Catherine; Pritz, Sandra G.
TITLE	Planning the Marketing Strategy. PACE Revised. Level 3. Unit 6. Research & Development Series No. 240CB6.
INSTITUTION	Ohio State Univ., Columbus. National Center for Research in Vocational Education.
SPONS AGENCY	Office of Vocational and Adult Education (ED), Washington, DC.
PUB DATE	83
CONTRACT	300-78-0032
NOTE	17p.; For related documents, see CE 035 672-729.
AVAILABLE FROM	National Center Publications, Box F, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210 (Complete set--$120.00; individual levels--$45.00 each; instructors' guides--$14.50 each; resource guide--$7.95; module sets--$35.00 each level; individual modules--$2.50 each).
PUB TYPE	Guides - Classroom Use - Materials (For Learner) (051)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Adult Education; Behavioral Objectives; Business Administration; *Business Education; Career Choice; Competency Based Education; *Decision Making; *Entrepreneurship; Evaluation; Individualized Instruction; Learning Activities; Learning Modules; *Marketing; Postsecondary Education; Retraining; *Small Businesses; Units of Study
IDENTIFIERS	*Program for Acquiring Competence Entrepreneurship

ABSTRACT

This individualized, competency-based unit on planning marketing strategy, the sixth of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Four competencies are dealt with in this instructional unit, including (1) using goods classifications and life-cycle analyses as planning tools for marketing, (2) developing and modifying marketing mixes for a business, (3) using decision-making tools that aid in evaluating marketing activities, and (4) evaluating operations to improve decision making about marketing. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately 3 hours of class time. (YLB)

ED228522

PACE REVISED

Program for Acquiring Competence in Entrepreneurship

UNIT 6

☐ Level 1

☐ Level 2

☑ Level 3

Planning the Marketing Strategy

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Use goods classifications and life cycle analyses as planning tools for marketing.**
- **Develop and modify marketing mixes for a business.**
- **Use decision-making tools that aid in evaluating marketing activities.**
- **Evaluate operations to improve decision making about marketing.**

Research & Development Series No. 240 CB 6

THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD · COLUMBUS OHIO 43210

CE 035 716

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - Discuss the economic concepts that influence marketing decisions
   - Identify important marketing activities
   - Explain how marketing aids business-people and consumers
   - Define the terms "target market" and "marketing mix"
   - Summarize the steps to be completed in developing a marketing plan

   Level 2 -

   - Explain the "market-oriented" approach to planning
   - List the controllable factors in each element of the marketing mix
   - Justify the use of market information and market research in planning
   - Develop a procedure for identifying target markets and developing a marketing mix
   - Outline a marketing plan

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the Resource Guide.

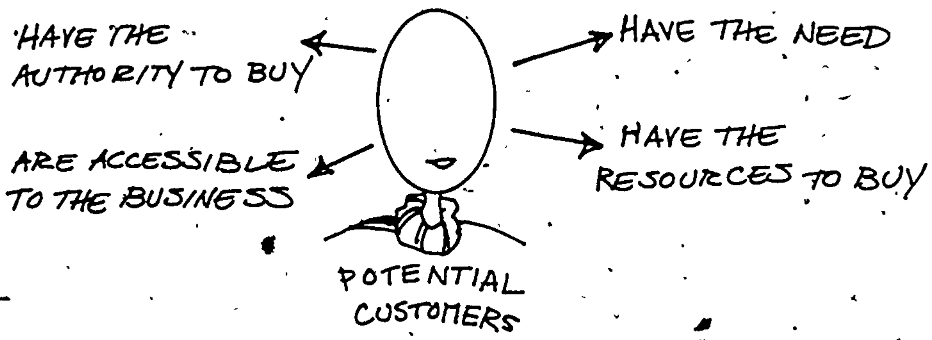
   goods classification system
   life cycle stages
   marketing effectiveness
   marketing efficiency
   market value

PLANNING THE MARKETING STRATEGY

WHAT IS THIS UNIT ABOUT?

Marketing planning for a business is one of the most important activities to be completed. Whereas marketing decisions will be made and modified each day, the basic marketing plan should be prepared as the new business is being developed.

Two decisions form the basis of a company's marketing strategy. First, a *target market* must be identified. The *target market* is the description of customers to be served. Second, a *marketing mix* must be developed. The marketing mix is the combination of product, price, place, and promotion to be used in meeting the needs of the identified target market.



The selection of customers and the development of a marketing mix will have a big impact on other business decisions. It could affect business location, capital resources needed, personnel to be hired, suppliers chosen, and many other business decisions. Once the marketing strategy has been implemented, it certainly can be changed, but it may require important changes in the business. Therefore, marketing strategy should be planned carefully with consideration given to other parts of the business. Before changes are made in marketing, the effects of those changes on the rest of the business should be reviewed.

WHAT MAJOR PLANNING MISTAKE CAN BE MADE?

Many new business people make the mistake of planning a product to be sold and developing their business around that product. Once the business is open, they may find that few people want the product at all or they don't want the product in the form the firm has provided. Other companies may already be meeting customer needs with similar products. At that stage, the business may have a difficult time recovering from the poor planning.

HOW CAN POTENTIAL MARKET VALUES BE DETERMINED?

To avoid that mistake, the business person should study the market very carefully before going too far in developing the business. Enough potential customers must be available to support the successful, long-term operation of the business. Characteristics of potential customers are as follows:

- Have the need
- Have the resources to buy
- Have the authority to buy
- Are accessible to the business

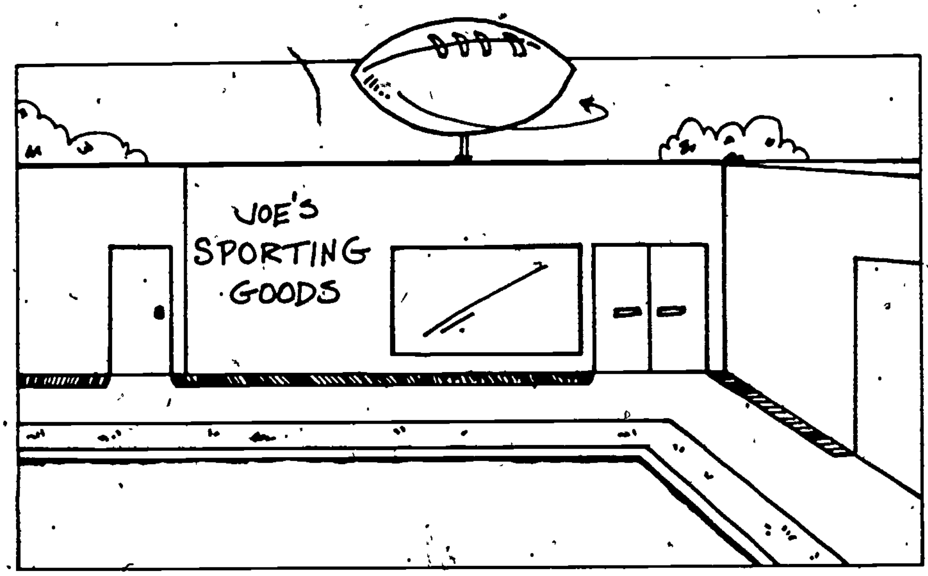
Once it has been determined that a potential market does exist, the business should estimate the value of that market (the amount of money people will spend in satisfying the identified needs.) A formula for estimating market value is—

(Number of people) × (average value of available resources) × percentage of resources devoted to the identified needs)

Although it is not quite that simple to estimate market value, a business-person can gather needed data from census information, business publications, universities, chambers of commerce, professional associations, and other sources. Most markets can be reasonably estimated with information available to most businesses.

It is important to recognize the difference between the total value of a market and the amount of the market a specific business can expect to receive for the sale of its products and services. The *market value* is the total amount expected to be spent by *all* customers in *all* businesses selling similar products or services. Business-people need to estimate the share of the total market value the new business can realistically expect to obtain. Most new small businesses moving into a competitive market will not be able to secure a very large percentage of the total market for at least several years.

EXAMPLE: Joe wants to open a specialty sporting goods store that will sell golf, tennis, exercise, racquetball, bowling, basketball, football, baseball, softball, and soccer equipment. Joe plans on opening a 2,000 square feet store in a community shopping center in a town of 30,000. The town is the county seat and is the largest town in the county. There are another 30,000 persons living outside of town, but they are considered to be part of the town's consumer base. There is a major metropolitan area of 900,000 people 50 miles away.



Sales in sporting goods in 1980 were $70.00 per capita, according to the National Sporting Goods Association.

The major market for the store is considered to be the 60,000 people living in or close to town. If the local area spends as much money on sporting goods as the national average, the total market in terms of dollar volume should be $4,200,000. However, only 45 percent of this amount is from the sale of general sporting goods. Therefore, only $1,890,000 can be considered.

Furthermore, Joe does not plan on carrying all types of general sporting goods. Listed below are the types of goods and what percentage of sales they represent, as compared to all general sporting goods sales:

Golf equipment	7.9%
Tennis equipment	9.8%
Exercise equipment	15.2%
Racquetball equipment	1.2%
Bowling equipment	1.8%
Basketball equipment	2.7%
Baseball and softball equipment	2.8%
Football equipment	1.8%
Other	2.0%
	45.2%

45 percent of $1,890,000 equals $850,500

Therefore, the total estimated market potential for this type of sporting goods store is approximately $850,000 per year.

Currently, there are no specialty sporting goods stores in town. However, there is a K-Mart in the mall, four local discount stores, three hardware stores, and J.C. Penney and Sears catalog stores, which sell sporting goods.

After evaluating the discount stores that carry a little of each type of sporting goods, as well as reviewing the local hardware stores, it was determined that approximately 50-70 percent of all sales in the area went to the existing local stores. The other 30-50 percent of the sporting goods needs were being met by specialty stores in the large metropolitan area fifty miles away.

Based on the location of the new store, size of the store, size of inventory, and the advantage in distance between the new store and its direct competition in the major city, it is estimated that Joe could capture between 10-20 percent of the potential market. Therefore, sales should range between $85,000 to $170,000 per year. However, it is estimated that it will be three years before sales would reach 20 percent of the market.

If a new business moves into a market already served by four other similar businesses, those businesses already share the total market value. If they shared it equally, each firm would receive 25 percent of the total value. With the entry of the new firm, five businesses would now have to share the total value, so each would theoretically receive

20 percent. However, it is not likely that the new business could capture that much of the market. To do so, each of the other firms would have to give up 20 percent of their business. They would work very hard to avoid losing that much to a new business. A new business will have a greater chance for success if it can attract customers who are not totally satisfied with existing businesses. It will then need to provide a marketing mix that does satisfy those people.

WHAT PLANNING TOOLS HELP DETERMINE MARKET MIXES?

After a target market has been identified that can support the new business, an effective marketing mix can be developed. Two planning tools can aid in developing the right mix. Those tools are *goods classification* and *life cycle analysis*: Goods classification describes the ways in which consumers shop for similar products. Life cycle analysis is a method of describing the type of competition faced by businesses for their products.

The way in which consumers shop for products needs to be understood by marketers. It is very difficult to change buyer behavior. Understanding buyer behavior allows business people to market products in a way that satisfies customer needs.

Products can be classified in a system based on three important consumer decisions about the products:

1. Relative value of the purchase
2. Perceived difference among brands
3. Willingness to shop for the product

The goods classification system contains four categories of products based on those decisions:

1. Convenience goods
2. Shopping goods
3. Specialty goods
4. Unsought goods

WHAT IS THE GOODS CLASSIFICATION SYSTEM?

Convenience goods. These products are viewed by consumers as having a relatively low value and very few differences among several brands. Customers are not willing to spend a lot of effort shopping for these products and will buy them at a convenient time and location. If their favorite brand of a product is not available, they will often buy another brand. The customer can be influenced by advertising, display, and small price reductions for convenience goods. Typical examples of convenience goods for most people include food items; personal care products such as toothpaste, soap, facial tissue, and deodorant; and many household supplies, including laundry detergent, cleaning products, and the like.

Shopping goods. Some products are considered a more important purchase by consumers. They have a greater value to the purchaser and are viewed as having important differences in product features and price among brands. Because of those differences, consumers are willing to spend time shopping and comparing several brands before making a decision. For these products, customers will need more information about products and their prices and may be concerned about services and guarantees. Products often viewed as shopping goods are appliances, tools, some clothing items, furniture, and other items considered to be important purchases by consumers.

Specialty goods. A few purchases made by customers are considered as very important. In this case, the consumers will want to buy what they consider to be the very best brand. That brand is judged to be different from and superior to all others, and the customers will shop until that brand can be purchased. This of course shows a very strong customer loyalty. Customers need very little information to make the purchase, and it will be very easy to sell the "specialty" brand. However, it will be quite difficult, if not impossible, to sell a competing brand to the customers.

Any product can be a specialty good to certain consumers. Some people will buy only one brand of gum or soft drink. Others have a strong loyalty to a brand of shoes or televisions. Specialty goods are more likely to be high-priced purchases, such as automobiles, photographic and stereo equipment, or products with a high degree of emotional appeal (such as perfume, cosmetics, and designer clothing).

Unsought goods. There are some products that consumers do not shop for at all. This may occur because the consumer is not aware that the product exists, or because there is no need for the product. Any new product is an unsought good until consumers know it is available. This suggests the importance of promotion for new products, brands, and businesses. Other products are not typically purchased even though consumers know of their existence. There is no strongly felt need for these products. Examples of these types of unsought goods include life insurance, encyclopedias, and the services of physicians, dentists, and lawyers. These products and services may remain unsought by many people until their needs change or they face an emergency.

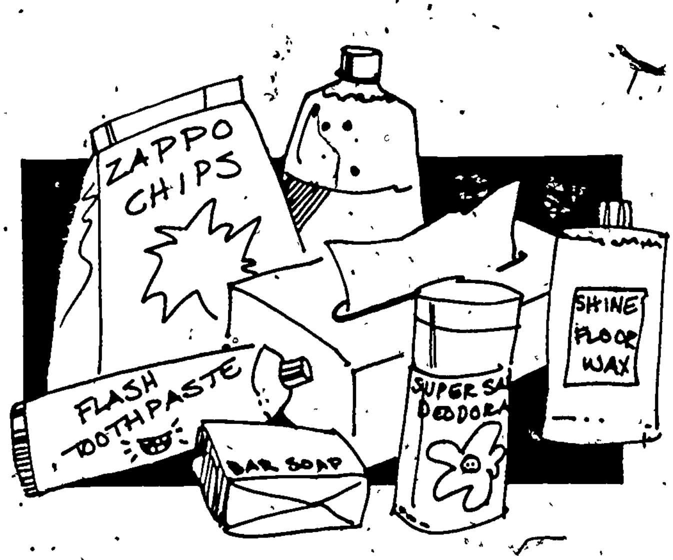
If a business person can identify the buyer behavior associated with products and services to be sold, appropriate marketing mixes can then be developed. It will require a different combination of product, price, place, and promotion for convenience goods than for shopping goods. Goods classification analysis can help a business person determine whether customers are more interested in location, price, product features, or services. It will show whether customers are likely to switch brands, what information they need before purchasing a product, and what type of promotion is likely to be most effective.

Goods classification analysis can also be applied to businesses as well as individual products. Consumers shop at some businesses because of their convenience. That convenience may result from location, parking, type of service or other factors. For other businesses, customers may shop among several. They compare product variety, services offered, prices, location, and other factors in order to get the best value. Some businesses are considered "specialty" businesses by certain customers. Those customers will shop only in that business for the products and services offered because they consider it to be superior to all other businesses. Finally, some businesses are "unsought," either because they are unknown to customers or because customers don't believe the business can satisfy their needs. Businesses can be operated in a way that meets the needs and expectations of the customers in the target market.

WHAT IS LIFE CYCLE ANALYSIS?

In addition to understanding consumer needs and behaviors, the entrepreneur must also consider the type of competition and how to best respond to competitors. Life cycle analysis is a tool designed to provide that information. It organizes the competitive history of a product into four distinct periods. Those periods are *introduction*, *growth*, *maturity*, and *decline*. The type of competition changes in each of the periods, and a business will have to use different marketing mixes in each period to be successful.

Introduction. When a brand new product is introduced into a market, it has the opportunity to start a new life cycle. The product must be new; it cannot be another brand of a product already being sold or similar enough to other products that it is just a good substitute.



If a product is indeed a new product, it will enter the market with little or no competition for a short time. The company with the new product will work to make it available to the target market, and will inform consumers about the product. The price of the product will usually be relatively high as the company tries to recover some of the costs of developing and marketing the product.

Growth. If the company is successful in the introduction period, sales will grow and the product will begin to show a profit. This will encourage other firms to enter the market with similar products. To compete, they will offer things the original company is not providing. That may include an improved product, greater availability, promotion, or a slightly lower price. The growth stage will be a period of rapidly increasing sales and the highest level of profits in the market. Many companies will enter the market with new brands;

some companies that cannot compete will leave. Competition is based on trying to improve the product and on the marketing mix of each company.

Maturity. After companies have competed with each other for some time in a market, their marketing mixes become quite similar Product features or marketing strategies that do not work are changed, and the ones that work well are adopted by other companies. Most customers who are interested in the product are already buying from one or more of the businesses. It will be more difficult and more expensive to get additional sales. In the maturity stage, profits will start to decline, sales will peak, and they may even start to fall slightly.

Because competitors' products will be very similar in this stage, most will concentrate on promotion and price reductions to attract customers. Some firms will find it difficult to compete, will be unable to make a profit, and will drop out.

Decline. The final stage of competition is characterized by a decline in sales and very little profit for firms remaining in the market. The decline stage results from customers leaving the market to buy new products. Some loyal customers will stay in the market during the decline stage. Over time, however, there will not be enough customers for profitable sales, and every company will need to find new markets. Companies in this stage will want to reduce costs while maintaining sales as long as they are in the market. They should plan to leave the market in such a way that they do not experience high losses.

HOW CAN LIFE CYCLE ANALYSIS BE USED IN MARKETING PLANNING?

Life cycle analysis can be used by business people to determine when to enter a market and what mix elements to use to compete effectively. It also can be helpful in predicting how other companies are likely to respond to changes in the market.

In the early stages of the life cycle, the emphasis is placed on product and place elements of the marketing mix. Later, competition focuses more on promotion and price. With careful selection of target markets, a firm may be able to develop better mixes than competitors. The mixes are better because they respond to the needs of a specific target market. This strategy is most important in the late growth and maturity stages of the life cycle. As a product moves through the stages of the product life cycle, a company may change target markets and marketing mixes. It is unlikely that a company can continue to use the same mix successfully as competition changes.

Businesses have choices of target markets and marketing mixes. The planning tools described above are helpful in selecting markets and mixes. However, final decisions should be based on carefully developed objectives. Some mixes are better at increasing sales volume, others at improving profits. Some can be implemented at a relatively low cost while still others take advantage of certain strengths a company may have or weaknesses of competitors.

HOW CAN MARKETING STRATEGIES BE EVALUATED?

Every marketing strategy should be evaluated on two criteria—effectiveness and efficiency. *Effectiveness* refers to how well the strategy achieves the goals of the business and satisfies customers. *Efficiency* is determined by the overall cost of the strategy. A company may not choose the strategy that is the most effective or the one that costs the least. Those strategies that best *combine* effectiveness and efficiency should be identified.

Four types of information aid business people in evaluating marketing activities:

- Sales
- Costs
- Performance of personnel
- Customer attitudes

Sales and cost information can be identified from company records. Methods of evaluating performance and determining customer attitudes should be developed. Informal and formal research is an important part of a business person's activities.

MARKETING CHECKLIST

The following checklist outlines the major parts of marketing strategy planning. It can be used as a planning tool in making marketing decisions, or as an evaluation tool in reviewing marketing activities.

1. Product or Service

   Is there a need for the product or service in the market place?

2. Location

   Is it suitable for the product or service and customer buying pattern?

3. Market Size

   Is the size large enough for all competing businesses?

4. Customers

   Who are they and does the product or service meet their needs?

5. Market Segmentation

   Is the business or service directed toward specific customer groups?

6. Competition

   Does the company have strengths or the competition have weaknesses that allow for successful operations?

7. Distribution

   What sources or suppliers are available for necessary purchases?

   Have appropriate sales policies been established?

8. Price

   Is it competitive and does it provide a profit?

9. Promotion

   Is it a good investment and does it give potential customers the appropriate information?

10. Financial

   Have the sales, costs, and profits for the product or service been estimated in dollars?

ACTIVITIES

INDIVIDUAL ACTIVITY

For your business or a business you are planning, complete the following market analysis:

A. Define the size of the market

1. Who will be your customers?

2. How many of these potential customers are in the geographic area your business will service?

3. How much money do these potential customers currently spend on your type of product or service?

B. Identify and evaluate the competition by estimating their current share of the market

1. List all businesses that offer your type of products or services.

2. Evaluate each one. List their strengths and weaknesses.

   Examples: Location, price, delivery, service, quality, variety, and so forth.

3. Estimate the competition's current sales volume.

   Examples: Size of inventory, number of employees, store square footage, and so forth.

C. Compared to the competition, list your business's strengths and weaknesses

   Examples: Location, price, delivery, service, quality, variety, and so forth.

D. Based on the estimated size of the market, and evaluating your strengths and weaknesses as compared to the competition, estimate what level of sales is most likely for your business. Factors affecting this figure could include location, price, delivery, service, quality, variety, size of store, or type of equipment.

E. Define your target market

1. Descriptive characteristics: age, income, occupation, location, and so forth.

2. Important buying motives: rational, emotional

3. Differences and similarities to competitors' customers.

F. Describe the goods classification(s) and life cycle stage(s) appropriate for your product or service

G. List the marketing mix elements that will be needed to satisfy customers and improve upon competitor's products or services.

1. Product

2. Place

3. Price

4. Promotion

H. Identify factors that might interfere with the successful implementation of the marketing mix

1. Economy

2. Laws and regulations

3. Costs

4. Competition

5. Technology

I. Describe the evidence you will need to determine the success of your marketing strategy and how that evidence will be collected:

1. Profit

2. Sales

3. Costs

4. Performance of activities

5. Customer satisfaction

ASSESSMENT

Directions: Read the following assessment questions to check your own knowledge of the information in this PACE unit. When you feel prepared, ask you instructor to assess your competency.

1. Develop a formula for computing market value and describe its value to a business person.

2. Define each of the major goods classifications.

3 Describe each of the stages in a product life cycle.

4. List the types of information needed to evaluate the effectiveness and efficiency of a marketing strategy.

SOURCES USED TO DEVELOP THIS UNIT

Ely, Vivien King and Barnes, Michael T. *Starting Your Own Marketing Business*. 2d ed. New York: McGraw-Hill Book Co., 1978.

Rutt, Roger W. *Creating a New Enterprise*. Cincinnati OH: South-Western Publishing Co., 1982.

Kurloff, Arthur H. and Hemphill, John M. *How to Start Your Own Business . . . and Succeed*. Rev. ed. New York, McGraw-Hill Book Co., 1981.

Mason, Ralph E.; Rath, Patricia Mink; Ross, Herbert L. *Marketing and Distribution*. 2d ed. New York: McGraw-Hill Book Co., 1974.

For further information, consult the lists of additional sources in the *Resource Guide*.

Level 3

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

OSU

The Ohio State University