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ABSTRACT

This instructor guide for a unit on marketing analysis in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 3 of learning--starting and managing one's own business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. These five objectives are addressed: discuss the effects of a customer-driven business plan; evaluate one's potential market using decision-making tools; describe product/service decision; define one's target market; and develop one's marketing strategy. (YLB)

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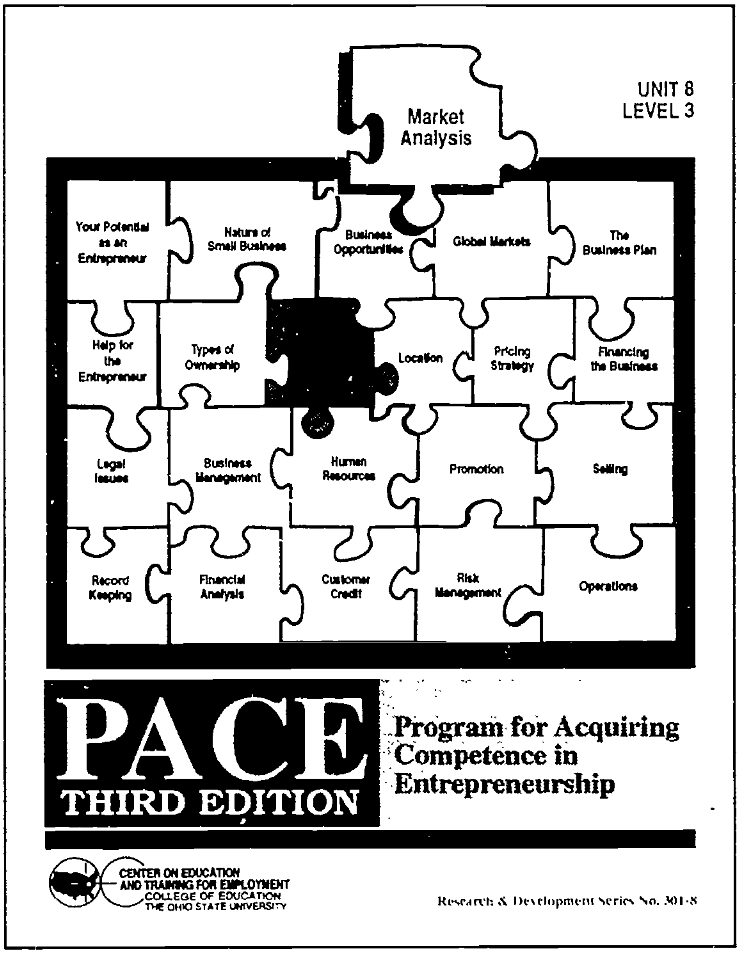

INSTRUCTOR GUIDE

Unit 8
Marketing Analysis
Level 3

Objectives:

- Discuss the effects of a customer-driven business plan.
- Evaluate your potential market using decision-making tools.
- Describe product/service decision.
- Define your target market.
- Develop your marketing strategy.

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. DISCUSS THE EFFECTS OF CUSTOMER-DRIVEN MARKET?	
Why is marketing a customer-driven process?	Use examples aside from the Chrysler Corporation to explain the concept of *customer-driven.*
2. EVALUATE YOUR POTENTIAL MARKET USING DECISION-MAKING TOOLS	
What are the steps in the decision-making process?	Using a variety of products or services, lead the class through the buying decisions for each. Use the five problem-solving stages shown in the text to organize the process.
How can potential market values be determined?	Review the example of the specialty sporting goods store in the text.
What is the goods classification system?	Introduce the goods classification system and discuss its' relationship to marketing.
3. DESCRIBE PRODUCT/ SERVICE DECISIONS	
Why is it important to recognize unsatisfied needs?	Explain to the class the important connection between meeting unsatisfied needs and business success.
How does a consumer make purchasing decisions?	Using the buying motives listed in the text as a guide, have the class create a list of their own purchasing priorities.
What is postpurchase analysis?	Ask the class to share some of their experiences with cognitive dissonance.
What are factors that affect the development of products/services?	Outline and discuss each of the qualitative and quantitative considerations that affect product/service development.
4. DEFINE YOUR TARGET MARKET	
Why target a market?	Expand on the discussion of target markets. Encourage the class to suggest additional examples.
What are some guidelines in making target market selections?	List the names of several local businesses in one column on the chalkboard or overhead. Enlisting the help of the class add another column that lists the target market for each business.
5. DEVELOP YOUR MARKETING STRATEGY	
What is the strategic marketing planning process?	Using the *Four Ps* of the marketing mix as a framework, work with the class to design a rudimentary strategic marketing plan.

Objectives	Teaching Suggestions
How does the planning process work?	Discuss the relationship between disciplined marketing and planning.
What is target market strategy?	Differentiate between market aggregation and market segmentation and the relationship to target markets.
What planning tools help determine market mixes?	Facilitate a discussion about the three important consumer decisions about products. Ask students to relate their personal consumer decision-making criteria.
How can the concept of environmentally friendly be used in marketing strategies?	Discuss examples from in and around your own community of eco-entrepreneurism. Extend the discussion to global ecological concerns that have produced business opportunities.
How can marketing strategies be evaluated?	Describe the difference between *effectiveness* and *efficiency*.
How are marketing strategies best summarized?	Designate an actual or fictitious business and assist the class in completing the market analysis.

MODEL ASSESSMENT RESPONSES

1. After identifying the need to buy a product, customers make purchasing decisions based on the following: convenience of location, rapidity of service, ease of locating merchandise, shopping conditions, assortment of merchandise, services offered, store appearance, and expertise of sales personnel. These factors are referred to as patronage buying motives and are of much interest to marketers.

2. There are four major goods classifications: (1) convenience goods, (2) shopping goods, (3) specialty goods, and (4) unsought goods.

   Convenience goods are viewed by consumers as having low-value and being very similar to the other products on the market. Consequently, consumers buy these products based on advertising, display, small price reductions, and other price incentives. Examples of convenience goods include cosmetic products, household supplies, such as detergents, and cleaning products.

   Shopping goods are viewed by consumers as being important goods, with higher value and important differences in features and price. Therefore, consumers will spend more time shopping for these kind of goods before deciding to buy them. In addition to advertising, consumers will look for additional information before buying the products. Shopping products include furniture, expensive clothing items, home appliances, electronic products, etc.

   Specialty goods are considered by consumers to involve important decisions. In this case, consumers are willing to pay high prices and go out of their way to find the particular brand they desire. The customers need little information about the product since they are loyal users of a particular brand. Examples of specialty goods include: perfumes, expensive cosmetics, automobiles, stereo equipment, etc.

   Unsought goods are products that consumers do not ordinarily shop for. The goods are unsought because customers are not aware that the product exists or they simply have no need for it. For this reason, unsought goods need to be heavily promoted. Example of unsought products or services include: insurance, other financial services, physicians and lawyers, encyclopedias, and dentists.

3. The product life cycle involves four stages: introduction, growth, maturity, and decline.

   Introduction refers to the initial stage during which the product is introduced to the market. At this stage, the product needs to be heavily advertised to induce consumer awareness. Usually, the prices are high at this point, because the seller has invested much money to develop and introduce the product.

A product in the *growth* stage is adopted by many sellers in the market because it has proven to be profitable. The market is well aware of the product, and customers have shown willingness to buy it.

At the *maturity* stage, the product offers no excitement to the market. Consequently, the prices decline along with the profit of the sellers. Consumers will still buy if offered price incentives.

Finally, the *decline* of the product signals a saturated market. The prices and profits decline even more with the competition generated by other products offering new and more attractive features.

4. Product/service development is affected by both qualitative and quantitative factors.

   Quantitative factors include: sales and market share trends, market sales, company sales, and the size and trend of the target market. The analysis of these factors includes: determining accurate estimates, the use of statistics, and the review of census and industry data.

   Qualitative factors include: the analysis of economic conditions and trends (income, inflation, economic cycles, interest rates, tax regulations, etc.), competition, the product's life cycle, the mission of the business, and marketing plan expectations. Economic factor analysis helps the entrepreneur to accurately project sales and take advantage of tax benefits. A careful assessment of the competition helps the entrepreneur correctly identify his/her position in the market and choose appropriate marketing strategies. A correct identification of the stage in the product life cycle helps the entrepreneur market the product appropriately. Marketing strategies should be consistent with the image the business conveys to the market.

5. To determine the effectiveness and efficiency of a marketing strategy, you need to know the following information: sales, costs, performance of sales personnel, and customer's attitudes.

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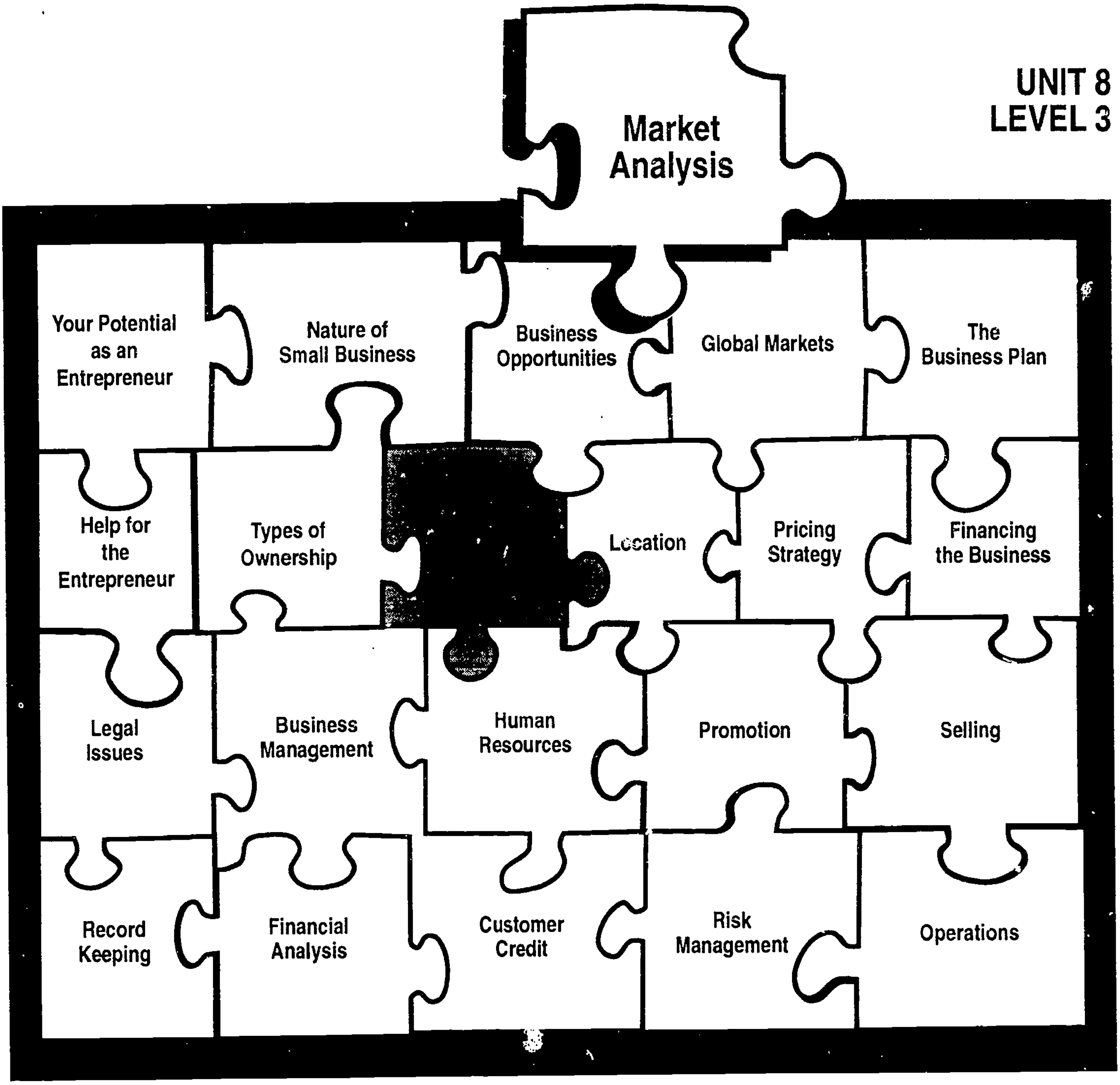
UNIT 8
LEVEL 3



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 303-8

MARKETING ANALYSIS

BEFORE YOU BEGIN . . .

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

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

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

   Level 1

   - Define marketing.
   - Explain "marketing mix."
   - Discuss the importance of marketing research.

   Level 2

   - Explain the "market-oriented" approach to planning.
   - Justify the use of market research in planning.
   - Identify the process for determining the marketing mix.
   - Profile potential customers.
   - Define market share.
   - Define the components of a marketing plan.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

   Cognitive dissonance
   Life cycle analysis
   Market aggregation
   Marketing objectives
   Market segmentation
   Patronage buying motives
   Product buying motives
   Situation analysis

MARKETING ANALYSIS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- discuss the effects of a customer-driven market,
- evaluate your potential market using decision-making tools,
- describe product/service decisions,
- define your target market, and
- develop your marketing strategy.

WHAT IS THIS UNIT ABOUT?

Marketing analysis for a business is one of the most important activities to be completed. Whereas marketing decisions will be made and modified each day, it is necessary to create and maintain a marketing strategy as your new business is being developed.

There are two definitions used for marketing. The first is an overall or macro dimensional definition. It states that marketing is any exchange intended to satisfy human wants or needs. The second is pinpointed to a smaller segment or a micro definition. Micro marketing consists of the total system of activities designed to plan, price, promote, and place or distribute want-satisfying goods and services to markets. These definitions form the foundation of what marketing is, and from this point all marketing analysis and strategy begin.

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 IS THE STRATEGIC MARKETING PLANNING PROCESS?

The strategic marketing planning process consists of five steps:

1. Conduct a situation analysis
2. Determine marketing objectives
3. Select target markets and measure the market demand
4. Design a strategic marketing mix
5. Prepare an annual marketing plan

A situation analysis is a review of the existing marketing program the business has already in place. By analyzing where the program has been and where it is now, management can determine where the program should go in the future. A situation analysis normally includes an analysis of the external environmental forces and the nonmarketing resources that surround the organization's marketing program. A situation analysis also includes a detailed review of the company's present marketing mix—its product and pricing situation, its distribution system which includes suppliers and middlemen, and its promotional program.

The next step in the marketing planning process is to *determine the marketing objectives*. As with organizational objectives, the marketing goals should be realistic, specific, measurable, and mutually consistent. They should also be clearly stated in writing.

The *goals at the marketing level* are closely related to the companywide goals and strategies. In fact, a company strategy often translates into a marketing goal. For example, to reach an organizational objective of a 20 percent return on investment next year, one organizational strategy might be to reduce marketing costs by 15 percent. This organizational strategy would then become a marketing goal.

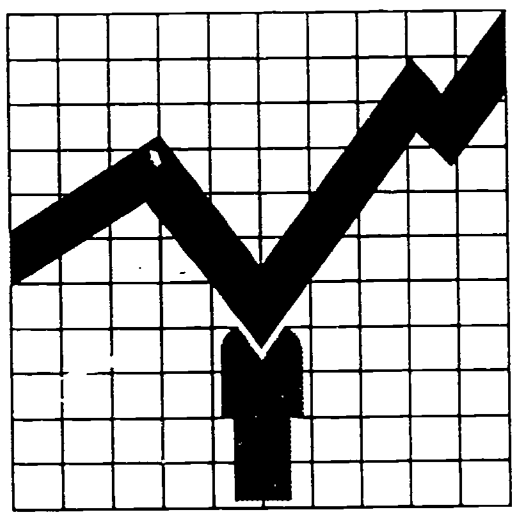
The selection of target markets is obviously a key step in marketing planning. Management should analyze existing markets in detail and identify potential markets. At this point, management also should decide to what extent and in what manner, it wants to segment its markets. As part of this step in the planning process, management also should forecast its sales in various markets.

Management next must design a strategic *marketing mix* that enables the company to satisfy the wants of its target markets and to achieve its marketing goals. The design, and later the operation, of the marketing mix constitutes the bulk of the company's marketing effort, or its *annual marketing plan.*

Marketing mix is the term that is used to describe the combination of the four inputs that constitute the core of an organization's marketing system. These four elements are the product offerings, the price structure, the promotional activities, and the location or distribution system. Although the marketing mix is largely controllable by company management, this mix still is constrained by external environmental forces. The mix is also both influenced and supported by a company's internal nonmarketing resources.

PLANNING PROCESS

MARKETING BACKGROUND



MARKETING PLAN

EXECUTION AND EVALUATION

HOW DOES THE PLANNING PROCESS WORK?

Disciplined marketing planning has two major components. The first, *marketing background*, includes the business review, commonly referred to as a situation analysis, and problems and opportunities segments. The business review is a comprehensive analysis of the marketplace and of your own organization broken down into sequentially ordered sections; the problem and opportunities segment is a summary of challenges emerging from the business review. The second major component is the *marketing plan* itself, which is developed from the information gathered and analyzed in the marketing background section. The marketing plan is totally inclusive, beginning in sequential order with the sales objectives and ending with a budget and calendar of marketing activities necessary to realize the sales objectives.

Once the plan is prepared, it must be executed and then evaluated. And, though evaluation is the last step in the process, with it begins anew the whole disciplined approach, as evaluation becomes a major part of the background section in the preparation of next year's marketing plan.

WHY IS MARKETING A CUSTOMER-DRIVEN PROCESS?

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 do not 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.

A current example of this occurred in the United States in the late 1980s. Chrysler Corporation had built a car which it felt could rival any Japanese-made auto, at home and abroad. Chrysler then decided to test market the car in Japan because of its excellent quality. However, the Japanese did not buy the car nor did they seem to care that its quality was even far superior to some Japanese cars. The one minor detail Chrysler had failed to realize was that the Japanese people drive on the left side of the road and need an auto with the steering wheel on the right side. The company still claimed it made no difference to the Japanese since initially the car was a quality one. The market results showed that it did matter to the Japanese and had the steering wheel been moved at a cost of less than $50 the car would have succeeded. Chrysler still failed to move the steering wheel and finally canceled the car from being sold in Japan.

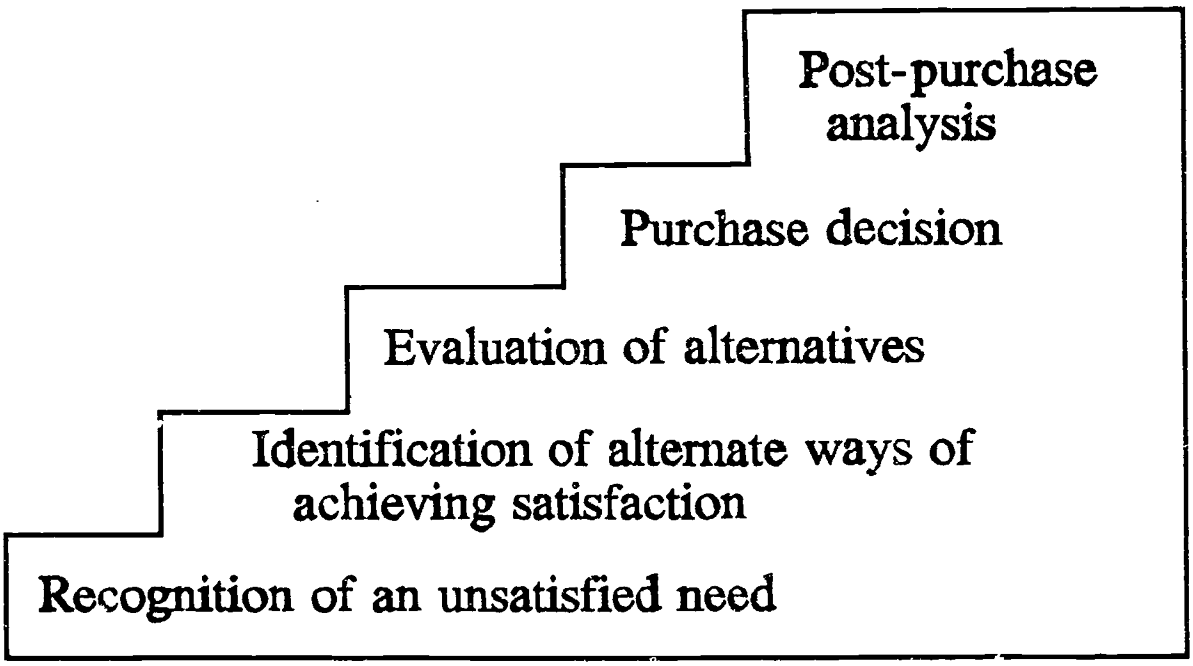
As consumers become more environmentally concerned, they may realize that this new product, idea, or service has not taken into consideration environmental concerns that surround new product development. The customer is becoming aware of his obligation to preserve the ecological base for new developments and to encourage technologies for the *social good* of everyone concerned.

WHAT ARE THE STEPS IN THE DECISION-MAKING PROCESS?

In order to evaluate your potential market using decision-making tools, it is important to describe the process consumers go through when making purchasing decisions. The process is a problem-solving approach consisting of five stages.

- Recognition of an unsatisfied need: *You need a new auto.*
- Identification of alternate ways of achieving satisfaction: *You can buy a sports car, an economy car, or a station wagon.*
- Evaluation of alternatives: *You consider the pros and cons of the three types of automobiles.*
- Purchase decision: *You buy a sports car.*
- Post-purchase analysis: *You wonder if you made the right decision.*

DECISION-MAKING PROCESS



Once the process has been started, potential buyers can withdraw at any stage prior to the actual purchase, and some stages can be skipped. A total-stage approach is likely to be used only in certain buying situations—a first-time purchase of a product, for instance, or in buying high-priced, infrequently purchased articles. For many products the purchasing behavior is a routine affair in which the aroused need is satisfied in the usual manner by repurchasing the same brand. That is, past reinforcement in learning experiences lead directly to the buying response-act, and thus the second and third stages are bypassed. However, if something changes appreciably such as the price, product, or services, the buyers may reopen the full decision process and consider alternative brands or products.

WHY IS IT IMPORTANT TO RECOGNIZE UNSATISFIED NEEDS?

The process starts when an unsatisfied need (motive) creates inner tension. This may be a physical need, aroused internally (the person feels hungry); the need may have been dormant until it was aroused by an external stimulus, such as an ad or the sight of the product; or perhaps the need is recognized because of dissatisfaction with the present product.

Once the need is recognized, consumers often become aware of conflicting or competing uses for their scarce resources of time or money. Let us say that a man wants to install a hot tub in the backyard at a cost of $8,000. His wife reminds him that they need new furniture for the living room. Or he may fear that his neighbors may not approve of the hot tub. Hence, these conflicts must be resolved before proceeding or, otherwise, the buying process stops at this point.

Once a need has been recognized, both product and brand alternatives must be identified. Sup: ose a woman wants to make her hands feel softer. Some alternative solutions include buying a dishwasher, using rubber gloves, trying a different detergent, or trying a new brand of hand cream. Of course she could get her husband and kids to wash the dishes and scrub the floors. If one of the product alternatives is selected, then there still are several brand alternatives to choose from.

The search for alternatives is influenced by such factors as (1) what the time and money costs are (not much time is spent buying a hamburger in comparison with the time spent buying a new car), (2) how much information the consumer already has from past experience and other sources, and (3) the amount of the perceived risk if a wrong selection is made.

Once all the reasonable alternatives have been identified, the client must evaluate each one before making a purchase decision. The criteria that consumers use in their evaluations include past experience and attitudes toward various brands. Consumers also use the opinion of members of their families and other reference groups as guidelines in these evaluations.

HOW DOES A C NSUMER IDENTIFY PURCHASE DECISIONS?

After searching and evaluating, the consumer at some point must decide whether or not to buy. If the decision is to buy, the buyer must make a series of decisions regarding brand, price, store, color, and so on.

Anything marketers can do to simplify decision making will be attractive to buyers, because most people find it very hard to make a decision. Sometimes several decision situations can be combined and marketed as one package. A travel agency simplifies travelers' decisions concerning transportation, hotels, and tours to take by selling a packaged tour to customers.

At this point in the buying process, marketers are trying to determine the consumers' *patronage buying motives*. These are the reasons that a consumer shops at (patronizes) a certain store. These are different from *product buying motives*, which are reasons for buying a certain product. Some of the more important patronage buying motives include the following:

- Convenience of location

- Rapidity of service

- Ease of locating merchandise

- Uncrowded conditions
- Price
- Assortment of merchandise
- Services offered
- Attractive store appearance
- Caliber of sales personnel

Patronage motives and choice of stores are related to the concept of social-class structure. The *Chicago Tribune* studies of social classes show definitely that people match their own values and expectations with the status of the store. Not all people want to shop at glamorous, high-status stores. Lower-status people know that they will be punished in subtle ways by the clerks and other customers if they go into an exclusive department store. "The clerk treats you like a *crumb*!" was one response.

WHAT IS POST-PURCHASE ANALYSIS?

All the steps in the buying process up to this point occur before or during the time a purchase is made. However, a buyer's feelings after the sale are also significant for the marketer. They can influence repeat sales and what the buyer tells others about the product.

Typically, buyers experience some post-purchase anxieties in all but routine purchases. This state of anxiety is often referred to as *cognitive dissonance*. The theory is that people strive for internal harmony and consistency among their cognitions or knowledge, attitudes, beliefs, and values. Any inconsistency in these cognitions is called dissonance.

Post-purchase cognitive dissonance occurs because each of the alternatives considered by the consumer usually have both advantages and limitations. So when the purchase decision is finally made, the selected alternative has some drawbacks, whereas the rejected alternatives each possess some attractive features. That is, negative aspects of the item selected, and the positive qualities of the rejected products, create cognitive dissonance in the consumer.

Dissonance typically increases as (1) the dollar value of the purchase increases, (2) the relative attractiveness of the unselected alternatives increases, and (3) the relative importance of the decision increases (buying a house or car creates more dissonance then buying a pack of chewing gum).

To restore internal harmony and minimize discomfort, people will try to reduce their post-purchase anxieties. Thus, they are likely to avoid information, such as ads for the rejected products, that is likely to increase dissonance. Prior to making the purchase, they may shop around quite a bit, especially for high-priced, infrequently purchased articles. In this way they seek to minimize postdecision dissonance by spending more time in predecision evaluation.

Some useful generalizations can be developed from this theory. For example, anything sellers can do in their advertising or personal selling to reassure buyers—say, by stressing desirable features of a product—will reduce dissonance. This reduction will reinforce consumers and increase the likelihood of repeat purchases. When the product in question is expensive and infrequently purchased, the sellers' postsale service program can be a significant factor in reducing dissonance.

HOW CAN POTENTIAL MARKET VALUES BE DETERMINED?

Many new business people make the mistake of ignoring all information available to them and rush in to produce a product. To avoid this 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 times the *average value of available money* times the *percentage of funds devoted to the identified needs* equals *the estimation of market value.*

Although it is not quite that simple to estimate market value, a business person can gather needed data from primary and secondary sources. Census information, business publications, universities, chambers of commerce, professional associations, and other sources are available for secondary research and personal primary research. 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 from 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. For example, Wes Smith wants to open a specialty sporting goods store that will sell golf, tennis, exercise, racquetball, bowling, basketball, football, baseball, softball, and soccer equipment. Wes plans on opening a 2,000 square foot 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 1992 were $70 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, Wes 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%
Total	45.2%

Forty-five 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, JC Penney's and Sears Catalog store that all 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 Wes 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 3 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, all 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 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 ARE FACTORS THAT AFFECT THE DEVELOPMENT OF PRODUCT/SERVICES?

Both *quantitative* and *qualitative* factors must be taken into consideration in the development of your products or services. Quantitative factors are those that can help to calculate numerically specific sales objectives. These are calculated first in order to develop hard numbers based upon objective input. Qualitative factors are more subjective because of nonavailability and difficulty in quantifying certain types of information. Therefore, interpretation of these additional subjective factors leads to an adjustment of the quantitatively based sales objectives.

QUANTITATIVE FACTORS

- **Sales and Share Trends**

  In preparing to set sales objectives, a good place to start is with the past, if you have been in business. The trends of the market and company sales will be major factors to consider when projecting sales. For the start-up business, you will only be able to make intelligent estimates.

- **Market Sales**

  Review the trends of the market over the past 5 years in terms of dollar and unit sales. What has been the trend of the marketplace—upward, downward, flat, erratic? Within the total market history of sales and units, what has been the trend of market segments that make up the total market? If you were tracking total market shoe sales, you might have found a flat to be a slowly upward moving market, but athletic sales as a subset were going upward at a percentage rate more than twice that of the total market. Accordingly, if you are selling athletic shoes in your store, you would take this trend into consideration when setting objectives.

  Also, if your business benefits from fad or erratic sales volume, you must learn to recognize and deal with it realistically in setting your sales and profit objectives. Fad volume could be occasional, such as a convention or sports tournament that brings a large number of people to your town and then to your business. Or fad volume could be much longer lasting, such as that created by a highly publicized health care study indicating that the use of fish oil prolongs life or that aspirin prevents additional heart attacks. If your company markets either one of these products, you would have to estimate the impact of this information in terms of volume and time. How many consumers will it affect and for how long?

- **Company Versus Market Sales**

  Next, compare how your company's sales are projected year to year versus the total market's sales. In most instances, project your sales to equal or surpass the market rate of growth; otherwise, you will be losing a share of the market.

- **Market Share Trends**

Another factor to consider is the change of your market share—for the company, for the product line and each product, or for the retail/service category and each major department. At what rate will your share change relative to the market? Will it grow in a growing market? Will your share be going up in a market that is shrinking? Or will your share of the market decrease in a declining market? If you find your product is losing share in a market that is declining, it would be unrealistic to project sales increases unless your strategy is to reverse this trend through a major marketing commitment. When setting sales objectives, keep in mind that not only is it difficult to reverse a product's sales decline in a 1-year period, but it is extremely difficult to reverse a product's decline within a declining market.

- **Size and Trend of Your Target Market**

Determining accurate sales objective(s) estimates is also dependent on an accurate appraisal of the size and projected growth of the market for your product or service. Many new business ventures fail because of an overly optimistic estimate of the size of the market. It is very important to review census and industry data in your business review, as well as primary research if available, to determine how big the market really is for your product and how it is changing.

For example, the management of a retail chain selling low priced men's suits came to your firm asking why their two year old chain of twenty stores was not doing well. After reviewing business census data you discovered a relatively small market for the product category:

> A limited number of purchasers where only 25 percent of men purchase a suit or sport coat each year.
>
> The market category for suits was going down whereas casual mens-wear, which the retailer did not carry, experienced growth.

If this company had reviewed the market data before projecting its sales, it might never have committed itself to the retail concept in the first place. What would you have told the company to do?

Many times sales objectives are set too high year after year because the company's management does not keep current with their targeted markets. This continual erosion of the target market could have been documented through published industry data, company sales data, and/or primary research. In the example above the agency was able to document men's buying habits for dress clothes and make major decisions for the company based on this data through primary research.

- **Budget, Profit, and Pricing Considerations**

When determining realistic sales objectives, it is helpful to have an understanding of your company's operating budgets and profit expectations. Ideally, sales cover expenses and provide for profits. And the simple fact is, you need a minimum level of dollar sales to stay in business and grow. For this reason, the cost of doing business or expenses incurred to operate your business is an important quantitative factor to consider when setting your sales objectives.

When setting sales objectives for your product or service, you should also understand the level of profitability within segments of your product line or retail/service offering. Along with the above, product price increases or decreases must be factored into all sale objectives because they dramatically affect sales volume and profitability.

QUALITATIVE FACTORS

- **Economic Considerations**

One factor affecting sales objectives that is difficult to forecast is the economy. Adjust your sales objectives based on your estimation of the economic factors that will directly affect your business. Are you forecasting sales for a recessionary, inflationary, or relatively stable period? If you are projecting sales for an inflationary period, you most likely will be estimating dollar sales to increase at a greater percentage than unit sales.

Interest rates are also an important factor in establishing sales objectives. Businesses that rely heavily on their customers purchasing on credit, such as auto dealers and real estate firms, usually see their sales slump as interest rates rise.

In addition, if there are major changes in the tax laws, you must plan accordingly. Elimination of an investment tax credit for heavy machinery would dramatically affect the sales of companies manufacturing heavy equipment.

Review not only national economic factors, but also those that might directly affect your product's market on a more local geographic basis. Pockets of unemployment can dramatically affect your sales objectives.

Bear in mind that although you cannot control economic factors, you can thoroughly evaluate what impact they could have on your business, and then adjust your product or service objectives and decisions for the short and long term.

- **Competition**

After careful observation and research, what you identified as a large and growing market can be diluted by strong and growing competition. Has a major competitor noticeably expanded its sales force, increased the number of trade deals to retailers, added distribution channels/store locations, changed its product mix, or introduced a new product or service? Based on your competitive review of advertising media, is the competition increasing or decreasing its level of spending? Increased competitive advertising spending, particularly in a consumer marketplace dominated by a few major competitors, can negatively affect the chance of your marketing program meeting its sales objectives.

For example, one long-term purpose of competition is to influence and encourage buyers to accept or adopt your goods, services, and ideas. The long-run ultimate effectiveness of competition is determined by the degree to which it affects product adoption among potential buyers.

Examine these five stages as one approach to gaining an edge on your competitors:

1. In the awareness stage, individuals become aware that the product exists, but they have little information about it and are not concerned about getting more.

2. In the interest stage, individuals are self-motivated to get information about the product's features, uses, advantages, disadvantages, price, and location.

3. During the evaluation stage, individuals consider whether the product will satisfy certain criteria that are critical for meeting their special needs.

4. In the trial stage, they use or experience the product for the first time, possibly by purchasing a small quantity, by taking advantage of a free sample or demonstration, or by borrowing the product from someone.

5. Individuals move into the adoption stage at the point when they choose a specific product when there is a need for a product of that general type. Whether they continue to use this product or not depends on their reaction to the product and the way you compete with other similar products to maintain the loyalty of these consumers.

Many times it is difficult to determine the direct impact on sales by an increase in competitive advertising. At this point, telephone survey research of your potential market can quantify its impact on your sales. Through this type of research, short-term revisions can be made if found to be appropriate.

- **Your Product's Life Cycle**

Another consideration in setting sales objectives is to review where your product is, relative to its life cycle. Do you have a new product that is just being introduced with a large untapped target market, minimal competition, and substantial growth potential? If successfully introduced, are your product's sales still growing, have they plateaued, or are they in decline?

Your short-term sales objectives should reflect the current life cycle stage of your product, while your long-term objective could concurrently reflect the stage of the life cycle your product is moving into. Many times, to ensure a clearer picture of where your product is in its life cycle, it is wise to stand back and review competitive products or draw comparisons to different products with similar characteristics in other industries. After these companies introduced their products, at what rate did they grow, when did they level off, and at what point in their existence did they decline? Manufacturers and service firms, as well as retailers, by determining if specific products they sell are in a growth, plateau, or declining stage, can more accurately forecast expected sales growth for their companies. See Figure 1 for the four stages of the product life cycle.

Take all of the above into consideration when estimating future sales.

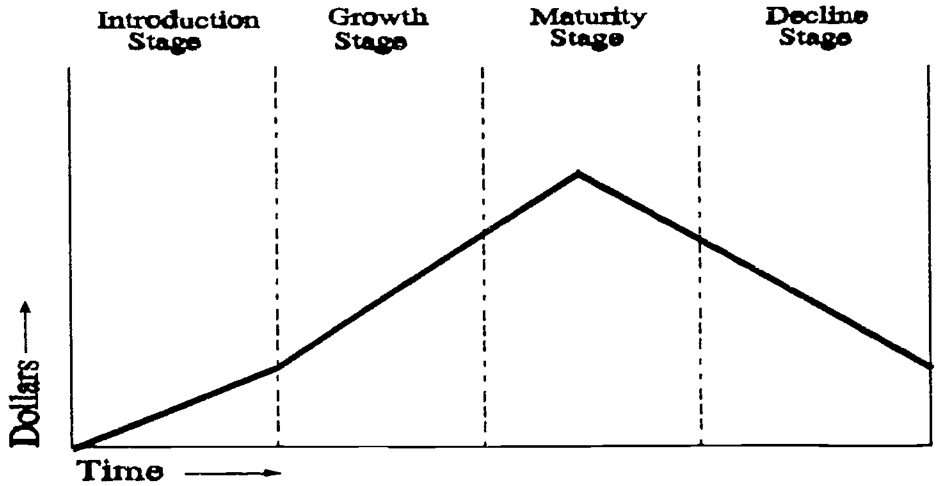


Figure 1. Four stage of the product life cycle

- **The Mission and Personality of Your Business**

As an entrepreneur, an important qualitative factor to consider is the mission and personality of your business. What are the expectations of your business? What is its reason for being? What is its philosophy of doing business? Is your company conservative and careful, or a moderate risk taker? Is it an old line, "don't rock the boat" company, or a young and charging "we can do it!" company? Consider also the aggressiveness of your business in terms of growth and innovation—product improvements, new products, and the opening of new distribution channels and new markets.

- **Marketing Plan Expectation**

Somewhat related to organization personality is another very important qualitative factor—your expectation of the overall marketing effort dictated by your marketing plan going into the process. The employment of a well-integrated, disciplined marketing plan, never before applied, will usually generate incremental sales, everything else being equal. Further, you would adjust your sales objectives upward if you intended to change the way you previously marketed your product. Investing media or promotional dollars, or lowering the price of the product are examples. Table 1 lists considerations in creating the marketing plan.

Table 1
Factors for Consideration in the Marketing Plan Expectations

FACTORS	SPECIFIC CONSIDERATIONS
MARKETING FACTORS	Macro timeframe unit sales goal (annual unit sales) Appropriate micro timeframe (such as weekly, monthly, or quarterly periods) Projected unit sales period Typical consumer product purchase rate per period Target market size
Marketing Goals:	Percentage of target market needed to purchase a typical rate per period to achieve unit sales goal.
ADVERTISING FACTORS	Examination of the target market (awareness, recall, recognition) Decision as to dollar amount to use in target market determination Projected advertising levels needed per period (usually 3-to-6 month intervals) to support projected target purchase rates Advertising carryover effects
Advertising Goals:	Percentage of the target budget spent at each advertising level per period required to support unit sales goal
MEDIA FACTORS	Message values (such as recall or recognition) Effective message frequency necessary to achieve each advertising level against the target per period (print, radio, or television) Effective reach, defined as required percent of the target market exposed to messages at effective frequency
Media Goals:	Effective reach necessary to accomplish each communication level per period
ADVERTISING BUDGETS	Amount of money required per period to sustain and effectively reach goals and objectives

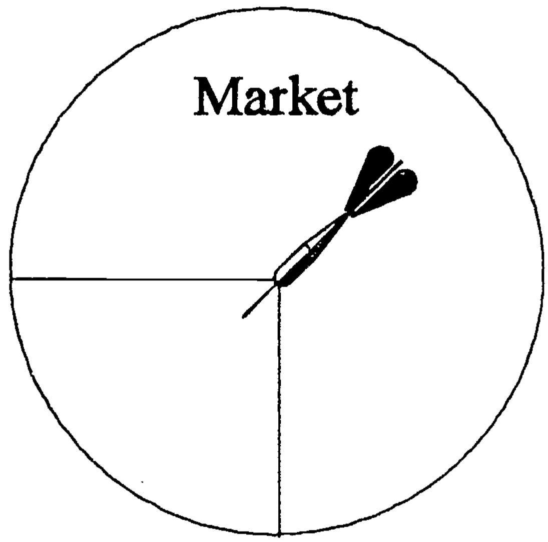
WHY TARGET A MARKET?

People are different in different parts of the country, and regional differences **do** exist in product preferences and in brand preference. For example, cream of mushroom soup is the number one seller in California, whereas people in the Northeast prefer chicken noodle soup. Midwesterners like tomato soup the best. In autos, the Southwest is the best market for pickup trucks, vans sell best in the Northwest, and California is a good market for expensive imported cars such as a BMW or Mercedes. Table 2 lists cities that are the number one market for the products as stated. These ratings are based on the per capita purchases of the product.

Why do you suppose that people in Atlanta are such big consumers of aspirin, and why do people in Seattle buy so many toothbrushes? In addition to regional influences, many companies find that the markets for their products are influenced by age, ethnic background, and other demographic factors.

In short, any marketer who hopes to prosper in the challenging decade of the 1990s and into the 21st century must be aware of the demographics of the decade. Demographic characteristics help to shape preferences, to determine attitudes, and to mold values.

A *target market* is a group of customers, people, or organizations at whom the seller specifically intends to aim its marketing efforts.



Marketing Strategy

WHAT IS TARGET MARKET STRATEGY?

In defining the target market a business will sell to, it has its choice of two general approaches. In one, the total market is viewed as a single unit—as one mass, aggregate market. The approach leads to the strategy of *market aggregation*. In another approach, the total market is seen as being composed of many smaller, homogeneous segments. This approach leads to the strategy of *market segmentation*, in which one or more of these segments is selected as a target market. Deciding which of these two strategies to adopt is a key step in selecting target markets.

Table 2
Major Products and Where Their Major Markets are Located

Product	Number One Market (on per capita basis)
Antacid & Aspirin	Atlanta
Popcorn	Dallas/Ft. Worth
Vitamins	Denver
Rat Poison	Grand Rapids
Shoe Polish	Indianapolis
Laundry soaps	New York
Ketchup	New Orleans
Toothbrushes	Seattle
Motor Oil Additives	Oklahoma City
Iced Tea	Philadelphia
Coffee	Pittsburgh
Dry cat food	Portland (Oregon)
Candy bars and marshmallows	Salt Lake City
Meat tenderizers	Savannah

WHAT ARE SOME GUIDELINES IN MAKING TARGET MARKET SELECTIONS?

There are some general guidelines to follow when selecting target markets. The first one is that the target markets should be compatible with the organization's goals and image. A firm that is marketing high-priced personal computers should not sell through discount chain stores in an effort to reach a mass market.

A second guideline is to match the marketing opportunity with the company's resources. Liggett & Myers followed this guideline when it decided to enter the market for a low-cost, unbranded baby diaper. Management decided that it did not want to spend the huge sums for advertising that would be necessary for a new diaper brand to compete with the established national brands. Consequently, the company introduced and marketed a nonadvertised, "no brand" (generic) diaper through supermarkets at a lower price. The company matched its limited marketing mix resources with its intended market.

Over the long run, a business must generate a profit if it is to continue in existence. This rather obvious, third guideline translates into what is perhaps an obvious market selection guideline. That is, a business should consciously seek markets that will generate a sufficient sales volume at a low enough cost to result in a profit. Unfortunately, through the years, companies often overlooked the profit factor in their quest for high-volume markets. The goal often was sales volume alone, not *profitable* sales volume.

Finally, a company ordinarily should seek a market wherein the number of competitors and their size are minimal. An organization should not enter a market that is already saturated with competition unless it has some overriding competitive advantage that will enable it to take customers away from existing firms.

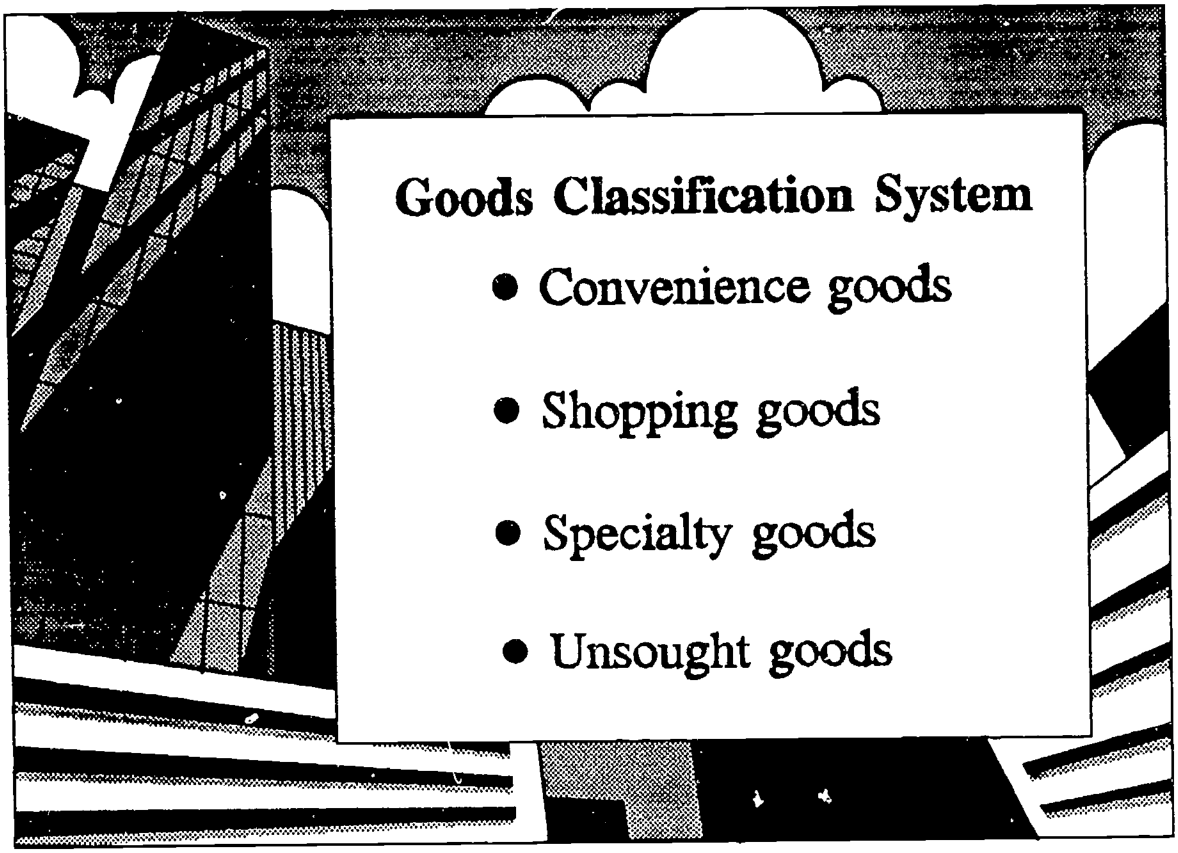
WHAT PLANNING TOOLS HELP DETERMINE MARKET MIXES?

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 buying behavior allows business people to market products in a way that satisfies customers needs.

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

- Relative value of the purchase
- Perceived difference among brands
- Willingness to shop for the product



WHAT IS THE GOODS CLASSIFICATION SYSTEM?

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

- Convenience goods
- Shopping goods
- Specialty goods
- Unsought goods

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 want to buy what they consider to 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 products, customers may shop among several businesses. 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.

HOW CAN THE CONCEPT OF ENVIRONMENTALLY FRIENDLY BE USED IN MARKETING STRATEGIES?

Eco-entrepreneuring or *green marketing* are terms of the 1990s. Large marketers see this trend as a welcome challenge, a way of increasing sales. Small businesses too are making honest attempts in providing environmentally friendly products.

The confusion arises because we do not, as yet, have a full set of scientific and legal standards by which to judge "friendly" products. At the beginning of 1990, only about eight states were investigating strong and uniform pollution standards. Even the term biodegradable is under scrutiny. Exposure to air and sunlight is one thing, but how about landfills that bury waste-filled bags vertically?

Entrepreneurial opportunities are created by ecological hazards, such as the following:

Rising temperatures

The *greenhouse effect* is widely known. The buildup of carbon dioxide in the atmosphere produces a canopy or top of a greenhouse. This prevents the gas close to the earth from escaping as it normally should. The opportunity of controlling industrial carbon dioxide emissions is present.

Deforestation

Controlled land forest management and deforestation are necessary. In Costa Rica, for example, iguanas are being raised for eating instead of cutting down the forests for cows to graze on. The harvesting of forests must be scientifically managed.

Other opportunities center around ozone-layer penetration, acid rain, air pollution, water pollution, hazard and toxic wastes, solid wastes, pesticides and soil erosion. These issues must all be looked at through new methods and opportunities that are certainly there for ways to make this world a better place to live in.

The big factor is the education of the consumer, those who drive the marketing process. Environmental education, consciousness and responsibility are in the hands of private societies and various councils. These associations are growing in clout and number. In this process, powerful political adherents are being attracted to the cause. Saving the earth and making a fortune is possible.

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.

HOW ARE MARKETING STRATEGIES BEST SUMMARIZED?

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 customer?
   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 (location, price, delivery, service, quality, variety, and so forth).
   3. Does your product/idea or service have a marketing niche because of its ecological edge on similar products?
   4. Estimate the competition's current sales volume (size of inventory, number of employees, store square footage, and so forth).

5. Is the market size large enough for competing businesses?

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

1. Is the location suitable to customer buying patterns?

2. Compare price, delivery, service, quality, variety, and so forth.

3. Is your business environmentally sound?

D. Based on the estimated size of the market and the evaluation of your strengths and weaknesses as compared to the competition, estimate the level of sales 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

4. Is your business or service directed toward specific customer groups?

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 or service idea

2. Place

3. Price

4. Promotion

5. People

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

1. Economy (economic forces)

2. Laws and regulations (political and regulatory)

3. Costs (legal/accounting and resources plus other costs)

4. Competitive forces

5. Technological forces

6. Societal forces

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

1. Profits

2. Sales

3. Costs

4. Performance of activities

5. Customer satisfaction

Marketing strategies are important in determining what direction your business will go. Without a well-defined strategy your business may be doomed from the start. As with any new venture, the more time given to create the best strategies the higher level of success your business will achieve.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITY

A.

Determine what place marketing has in your company by examining what marketing mix problems you may have.

List several ways in which businesses or consumers would be affected if marketing were eliminated. Would this affect your business? Why?

Complete a marketing analysis on your target market by using research along with the marketing mix to gain information on your product. What does the data tell you about your product?

GROUP ACTIVITIES

A.

Work in teams of four to six. Devise a marketing strategy for your business or a business of your choice. Examine all elements of marketing to find the link between them. Does your business need all parts of the mix? Go into the community and apply your findings to a business which can benefit from your knowledge of marketing. Does that business have a marketing strategy? Why or why not?

B.

Work in teams of four to six. Your team is going to sell shirts and hats at the local college's football games.

1. Decide how your team can use the marketing mix to sell your products.

2. Other than those attending the games, how can other groups be targeted for inclusion? How can your team accomplish this task?

CASE STUDY

Deanna Litton has been a representative of a large cosmetic manufacturer for over three years. She thoroughly loves and enjoys her occupation. She is able to arrange her own working hours and to sell as many products as she wishes. She enjoys calling on customers and has developed a strong clientele.

When she first sought employment, Deanna preferred flexible hours. She had a large family that she wanted to raise and a husband who was working hard in his own occupation. Deanna preferred something that would allow her to work 15 to 40 hours a week. The cosmetic company offered her a job that required only the use of a personal car and a telephone. She is a success due to her very pleasing personality and her ability to work easily with others on their time schedules.

The profit margin on all items sold by this independent small business owner is about 40 percent of the list price. The company publishes a sales catalog every 2 weeks.

There are 26 campaigns during the year that provide ample incentives and opportunities for profit in the business.

Deanna attends a regular monthly meeting and sends in orders twice a month at the end of each sales campaign.

There are different achievement plateaus that the independent business owner can reach. There are also special gifts provided for different sales volumes during each sales period, as well as total sales at the end of the year. Membership in the President's Club is limited to those whose sales reach $10,000 each year. Deanna firmly believes that this is the right job for her. She is excited about being a member of the club this year and is ready to work hard.

DISCUSSION QUESTIONS

1. Independent business people represent one of the largest occupations in the United States. Might this be the business avenue for you? Why?

2. What kind of person may choose to go into business as an independent business person?

3. Could everyone be successful as an independent business owner? Why or why not?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Develop a formula for computing market value and describe why this formula is important. Assume you can talk to a business person with the opportunity of selling your idea.

2. Define each of the major goods classifications.

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

4. Compare and contrast qualitative and quantitative research and explain when each would be used. Can these types of research ever be used together? Why or why not?

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

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PACE

Units on the above entrepreneurship topics are available at the following 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