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MARKETING TO WIN



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A good plan today is better than a great plan tomorrow. Gen. George S. Patton

Plans are nothing, planning is every thing. General Dwight D. Eisenhower

INTRODUCTION

Marketing to win involves organizing information and thinking ahead. Winning in the market results from making more effective decisions than the competitors. Effective decision-making requires awareness of what is happening in your environment, knowing where you want to go, and understanding how to get there. The key to making winning decisions in marketing is organizing alternative choices into a logically coherent framework and thinking them through methodically in advance. That is, developing a plan. The next few paragraphs of the introduction explain why it is worth the time and effort to develop a strategic marketing plan. The remainder of this booklet explains how to write a marketing plan. An appendix provides an example of what a plan should look like, and the bibliography shows where to find additional information about marketing planning

The marketing plan provides a systematic framework for identifying and resolving the current status and future direction of an organization. The plan answers three questions essential to the survival and growth of all businesses: (1) How well is it doing? (2) Where is the business going? (3) How will it get there?

If a manager cannot answer these three questions clearly, concisely, and convincingly, then decisions become hostage to events. Decision-making becomes reactive, characterized by crisis management in a hostile and confusing environment. The marketing plan offers an alternative. Planning allows a manager to operate proactively by systematically avoiding threats and seizing opportunities in the ever-changing but anticipated environment.

A marketing plan serves two purposes, one internal the other external, each directed toward a different audience. Internally the plan provides a blueprint or guide for managing future operations, and the plan is read and critiqued by superiors within the organizational hierarchy. Externally, the purpose of a plan is to provide a basis for funding. Loan officers and investors insist on a written plan to determine the soundness and feasibility of an organization's request for start-up or expansion capital. Although there are two distinct purposes and audiences for a plan, they are not mutually exclusive. The plan that works its way up the organizational ladder is often the same one marched into the vaults of the moneylenders.

Regardless of who reads the plan, or for what purpose, each wants a response to the three questions describing the status and direction of the business. Answers are found in the three major elements of the marketing plan. First a *situation analysis* addresses how well the organization is doing, and identifies the conditions and trends in the business environment. Next, setting *objectives* provide general and specific answers to the question of where the business is going. Third, creating a *marketing strategy* details how the organization intends to get there.

SITUATION ANALYSIS

A situation analysis provides information on where the business has come from, how well it is currently doing, and what is going on around it. This section includes a description of the company background and an analysis of the organization, the external environment, the industry, and the competition.

Company Background

The company background includes a brief description of the history of the business, the evolution of major product lines, any significant mergers or acquisitions, and recent trends in sales and profits. A more detailed discussion is necessary if the firm is pioneering a new product or service concept. Unless the product or service is intuitively obvious, it is important to explain the customer needs or the problem to which the new concept offers a solution. The section ends with a statement of the purpose

for writing the plan. The purpose of the plan is to develop a marketing strategy to achieve an important organizational objective, such as increasing sales or market share or profits.

Organizational Analysis

The organizational analysis is concerned with identifying significant strengths and weakness within the enterprise. Strengths refer to areas where an organization has advantages over its direct competitors. Weaknesses are areas where the firm is at a disadvantage relative to its direct competition.

Some areas to consider for identifying strengths and weaknesses include: an assessment of management quality and depth, finances, manufacturing, R&D, employee morale and labor relations, engineering, and so on; as well as any aspect of marketing, such as customer loyalty, product, price, promotion and distribution.

An absolute strength (or weakness) is not as important as a relative strength (or weakness). For example, Mitel Ltd., headquartered in Canada, an international manufacturer of telephone switchboards and related telecommunications equipment, had sales of about \$600 million. That seem like a lot of sales until they are compared with some of their direct competitors, such as AT&T in the U.S., Nippon T&T in Japan, Siemens in Germany, British Telecom in England, Ericsson in Sweden, and Northern Telecom in their home market of Canada. Their smallest competitors had sales more than fifteen times larger than Mitel, and the largest competitors have more than 100 times their sales. Thus, relative to their competitors, finances represent a significant weakness for Mitel.

Environmental Analysis

The environmental analysis identifies significant developments and trends outside the organization that represent opportunities and threats. An opportunity is a situation that the organization can profitably exploit if it occurs. Conversely, a threat is a situation in the environment that will negatively impact the organization if it is not avoided.

In a competitive environment, an opportunity for one firm is invariably a threat for others. Consequently, it is important to monitor the

environment for new developments or continuing trends. Environmental monitoring should include social, cultural, demographic, economic, technological, legal, political and regulatory trends, as well as natural and climatic developments if applicable.

A classic failure to appreciate environmental trends is found in the famous quote of the Literary Digest. In 1899 the magazine advised its readers that "the horseless carriage is at present a luxury for the wealthy; and although its price will fall in the future, it will never, of course, come into as common use as the horse and carriage." Nonetheless, despite their assurance, an observant blacksmith would recognize it was time to trade in his horseshoes and anvil for automobile repair work. Similarly, in the early 1970's, a trade magazine argued that because of their high prices the hand-held calculator didn't really pose a threat to manufacturers of slide rulers. By the 1990's to see a slide ruler you have to visit a museum.

Industry Analysis

Although part of the environment, the industry and competition are so important that they are discussed separately. The industry analysis concentrates on competitors in the aggregate, whereas the competitive analysis focuses on competitors individually.

The analysis starts with the size of the industry, preferably last year's sales, in dollars or units, its average projected rate of growth for the next 3-5 years, and a graph of the industry life cycle. Provide a graph of the industry life cycle containing both historical data and the projected trend (see Exhibit 1, in the Appendix Sample Marketing Plan, for an example of an Industry Life Cycle); and supply an explanation to justify your projection. This justification of the forecast includes significant industry developments, such as the economy entering recession, any recent technological breakthrough, or pending government regulations; and it is usually an elaboration of one or two of the most important environmental trends.

Competitive Analysis

A competitive analysis identifies both direct and indirect competitors. Direct competitors are those who serve the same set of

customer requirements and operate in an essentially similar fashion to our business. Indirect competitors serve similar customer requirements but operate in substantially different ways.

Analyzing direct competitors is made easier by developing a competitive matrix. The matrix is a profile of each major competitor juxtaposed to facilitate comparison of their sales, market share, customer targets, products and services, prices and discounts, promotion and advertising budgets, media and themes, sales force and distribution outlets; or as much of this type of information as is obtainable (See Exhibit 2, in the Appendix Sample Marketing Plan, for an example of a Competitive Matrix). Additionally, potential direct competitors should be identified. Potential competitors include those firms that have *both* the resource capability and some likelihood of entering the market within the time frame of the plan.

Indirect competitors are also listed for they may be of interest. The decline of an industry usually results from innovation developed by those outside the industry. Consequently, indirect competition is often a source of possible latent threats; a technological breakthrough could result in a serious erosion of the firms core customer base.

For example, one of the weakest and most deteriorating industries in America at the dawn of the Twenty-first Century is the Railroad Industry. And yet, at the dawn of the Twentieth Century, the Railroads were, by far, the largest and most dominant industry in the country. Their demise is attributed to missing the clear and present competitive dangers in their environment. The railroads missed these threats because they were only concerned with competing against each other. The New York Central Railroad, for example, would build parallel tracks with the Pennsylvania Central Railroad, in areas that couldn't support two competing railroads. These railroad wars of attrition sapped their financial strength. Moreover, by myopically viewing themselves as railroads they narrowly focused their attention on the direct competition of other railroads. Rather than broadly viewing themselves as transportation companies and gaining insight into their indirect competition, the railroads overlooked the threats of airlines carrying passengers and trucking lines hauling freight. The railroads failed to perceive the threat of indirect competition because they did not define their mission clearly.

Sometimes the problem is setting overly narrow objectives, but the

other extreme of overly broad objectives is equally problematic, as is establishing hazy objectives, or setting objectives that are excessively optimistic or pessimistic. Poorly defined objectives tend to result in overlooking opportunities that ultimately turn into threats.

OBJECTIVES

Objectives define "where" the organization wants to go. They provide focus, direction and cohesion to the enterprise and furnish a means for evaluating market performance. Included are two distinct types of objectives: a business mission, which provides a broad overall statement of organizational purpose, and performance goals, which supply specific indicators of a firm's financial performance.

Business Mission

The mission statement is a general expression of the scope and purpose of an organization. The mission should be expressed in one clear and concise sentence defining the purpose of the business in terms of the customers served and its major strengths. For example, one large telecommunication firm stated: "Bell Atlantic's mission is to provide our customers with high value communication services...and equipment that is exactly right for residential and business needs." A government agency declared: "The mission of the Florida Department of Environmental Regulation is to protect, conserve and restore the air, water, and natural resources [for the citizens] of the state."

Remember to define the business in terms of customer needs or the market it serves, rather than by the products it sells. Do not define a firm as a television manufacturer, but as an entertainment provider; not a telephone manufacturer, but a communications supplier; not a railroad company, but a transportation provider. The distinction could determine the fate of the industry. Remember, railroad companies saw themselves as providers of rail services, not as transportation providers, and lost much of their passenger business to airlines and most of their freight business to trucking.

Performance Goals

Performance goals provide a means to determine how well the organization is doing compared to the competition and itself at other points in time. Goals include unit sales, sales revenue, market share, profits, and others that may be relevant. These goals are all interrelated. Unit sales multiplied by the price equals sales revenue. Company sales divided by industry sales (from the Industry Analysis) equals market share. Sales revenue minus costs (from the Pro forma Income Statement) equals profits (or losses). Depending on the type of firm, additional goals should be considered, such as occupancy rates for a hotel, passenger miles for an airline, or new stores opened for a fast food franchiser.

Goals should be quantifiable to facilitate measurement. Periodic comparison between planned and actual results, termed a marketing audit, highlight deviations and indicate the kind of corrective actions that are necessary to get back on track.

Forecasting performance goals reflect the prior analyses of the organization, environment, industry, and competition. At this point in the plan, however, goals are only ballpark estimates. The numbers are continuously refined and updated throughout the planning process, particularly during the subsequent development of a marketing strategy.

MARKETING STRATEGY

The strategy component of the marketing plan explains "how" the mission and goals will be achieved. There are two steps in creating a marketing strategy. First is identifying potential customers and second is creating a marketing program (or "marketing mix") to satisfy them. Ideally, the strategy will relate the organization's strengths to environmental opportunities. Contingencies for different environmental conditions should also be considered.

Choice of an overall marketing strategy is dependent on a number of factors, such as the organization's strengths and weaknesses, environmental opportunities and threats, industry trends and competitive conditions. To facilitate discussion, strategies are organized by stage of the life cycle. For example, in entering a new market, a financially strong firm facing weaker competitors would probably employ a penetration strategy. The penetration strategy aims at the mass market, or a very large market segment, with an

aggressive marketing mix: usually a combination of basic product, low price, sizable advertising and promotional campaign, and intensive distribution. On the other hand, a small firm with limited financial resources facing stronger competitors is more likely to enter a new market using a niche strategy. With a niche strategy, the firm targets a narrowly defined customer segment, usually with a premium product, prestige pricing, focused promotions, and exclusive distribution. BIC pens uses a penetration strategy aimed at the mass market for inexpensive writing instruments, whereas Cross pens employs a niche strategy targeted toward the gift segment of the writing market.

Usually employed during the growth phase, an expansion strategy may be used during any stage of the life cycle, even to recycle a mature or declining product. There are several approaches to expanding, such as customer, geographical or product line expansion strategies.

Firms can expand by adding customer segments. For example, Johnson & Johnson expanded sales of their Baby Oil, in the 1970s and 1980's, by emphasizing "its not just for babies, its good for the whole family." Similarly, Tums expanded from the antacid segment of the market when they realized they could attract consumers who wanted Tums as a calcium supplement. Segment expansion strategies are discussed further in the Targeting Section.

Although, technically, it is also a customer segment, geographical areas are significant enough to be considered as a separate type of expansion strategy. An organization can expand geographically, by going from local to regional, regional to national, or national to international. One small company started out as a local one unit grocery store primarily selling imported tea. It grew into a multiple unit regional northeastern chain. But it had a larger vision and expressed its geographical expansion strategy within the corporate name. Becoming the world's largest supermarket chain store, from the 1930's to the 1970's, A & P was the nickname of the Great Atlantic and Pacific Tea Company.

A firm could also expand by adding new product lines, such as a shirt store adding pants and jackets, and other products, Product line expansion is the strategy Roland Macy and John Wanamaker used in expanding from single-line specialty stores to multi-line department stores in the 1870s. A more unusual example of a product line expansion strategy was the surprising 1993 announcement by Circuit City, a home

appliance/electronics retailer, that they were going to start selling used cars. This was compared, at the time, to supermarkets selling television sets. Circuit City, however, has been successful with subsidiary CarMax.

In the late introduction and early growth stage of the life cycle, firms should consider their position in the market. That is, where they stand in the minds of consumers relative to competitors. If the firm is dissatisfied with their current positioning, they can employ a repositioning strategy for the product or service. When Philip Morris introduced an early brand of filter cigarettes in the 1950's, it was targeted toward women because filters were not considered "manly" enough for men. When consumer research showed that a significant segment of men would smoke a filter cigarette, the brand was repositioned away from women toward men. How well did the repositioning strategy work? That brand is Marlboro.

During the maturity stage of the life cycle there are several strategic alternatives. These include maintenance, harvesting, and differentiation strategies. A maintenance (or hold) strategy attempts to maintain market share by maintaining marketing effort; that is, keeping things the way they are. It is a non-aggressive strategy designed to maintain the status quo. Many oligopolies, such as the larger airline companies follow a maintenance strategy. The danger occurs is one competitor becomes aggressive, such as upstart Southwest Airlines.

Toward the end of maturity, many firms shift to a harvesting strategy. The product is treated as a "cash cow;" which involves accepting some reduction in market share in exchange for a more than proportional retrenchment in marketing effort. Since this strategy involves cutting-back it is even more passive than maintenance. Its main use is to support newer products in the pipeline, funding potential product stars.

In contrast to the passive maintenance and harvesting strategies, a differentiation strategy keeps the firm aggressive during the maturity phase of the life cycle. Differentiation involves creating brand uniqueness in the minds of customers. It can be done with any aspect of the marketing mix: the best product in a category, such as Rolls Royce automobiles or Mont Blanc fountain pens; or the lowest priced brand, for instance Wal-Mart, or the most convenient, 7-11 stores for example. It can also be done with a slogan, Ivory Soap 99.44 percent Pure," Pepsi's "The Choice of a New Generation" or BMW's "The Ultimate Driving Machine." It can be done with a symbol, McDonald's golden arches or Nike's swish or Marlboro's

cowboy, for example. A differentiation strategy can be based on almost anything, physical, symbolic or psychological, that separates one brand from the competition in the minds of customers.

Finally, at some point in the decline stage of the life cycle a divestment strategy becomes necessary because a product or service with declining sales consume disproportionate amounts of marketing time, effort and money. Consequently, at some point the product must be withdrawn from the market. If almost all other competitors are dropping out of the market, however, it may be possible to profitably stay alive a little longer as the sole survivor. For example, with the introduction and growth of filter cigarettes, non-filters started to decline. And yet, there remained a loyal core of old smokers who preferred them. When almost all cigarette brands became filtered, it left room in the market for a few non-filters to survive; at least until the declining segment of non-filter smokers die out.

Timing is also a strategic consideration. There are different implications of being a pioneer, close follower or late entrant into a market. Being the first mover is very expensive, but pioneers have an opportunity to develop customer loyalty that can often be difficult for competitors to overcome. Some examples of companies that were first in market share in 1925 and are still first today, Campbell soup, Gillette razorblades Goodyear tires, Kellogg breakfast cereal, Kodak cameras, Lipton tea, Sherwin-Williams paint, and Wrigley chewing gum, to name a few. But even starting with a good marketing entry strategy, it is still necessary to sustain it.

Sony, for example, is one of most innovative consumer electronic firms in the world and has become very profitable pioneering such products as transistorized radios, audio cassette recorders, video cassette recorders (VCRs), Camcorders, Walkmans, Watchmans, compact discs (CDs), digital audio tape (DATs), mini discs (MDs), high definition television (HDTVs), and they now sell 3-D TV and eyeglasses with a built-in TV. On the other hand, the world's largest consumer electronic company, Matsushita Electric Works, which dwarfs Sony in size, usually follows them to the market. Yet by designing a brand for every segment, their large number of brands Panasonic, Tecnic, Quasar, Pioneer, etc., has allowed Matsushita too also become successful. Both pioneering and close follower strategies offer the prospect of success.

An example of a pioneer failure and close follower surpassing the

leader is found in the VCR War of the 1980s. Sony pioneered the VCR using the "Betamax" format, but kept it proprietary; they were the only seller. Shortly thereafter, a much smaller company, JVC, launched a VCR using the "VHS" format. In contrast to Sony, however, JVC leased their VHS format to the world's electronic giants: Matsushita of Japan, Philips of the Netherlands, Siemens of Germany, Thompson of France, Olivetti of Italy, and RCA in the U.S., among others. Although experts regarded Beta as the better technology, VHS had far greater marketing clout. With many manufacturers selling VHS through a multitude of brands, they acquired more product titles, greater promotion, wider distribution and ultimately dominance in the market. As its market share continued to decline Sony was forced to withdraw Betamax, a small follower beat giant Sony. A good marketing strategy can bring down giants.

Facsimile machines provide another example of followers overtaking the pioneers. Xerox produced the first commercially successful fax in 1970, and several other American companies like Exxon, Burroughs and 3M were close followers. While these pioneers and early entrants targeted large corporate customers with sophisticated equipment and high prices, Japanese manufacturers aimed at small businesses that were more budget-minded. Sharp differentiated its brand by introducing a basic \$2,000 fax, which in 1984 was less than half the price of its competitor. Sharp also differentiated their distribution. In contrast to American firms employing company sales forces, with 90 sales people at most, Sharp used their office supply dealers network with more than 2,000 salespeople to sell faxes. In 1982, Xerox held 30 percent, and the top four American firms held 85 percent market share. By 1988, Sharp had 21 percent and the top four Japanese firms had captured a 57 percent share of the fax market. With a good marketing strategy, followers can become leaders. Being a close follower is less costly, but followers have to play catch-up with the leader. With a good marketing strategy many have caught-up.

Late entrants can often gain a toehold in a mature market by employing a niche strategy. LaQuinta Motor Inns was a late entrant to the stable lodging market. Yet they have grown from a two-unit chain to hundreds of units by starting with a niche strategy. Their strategy was to ignore pleasure travelers and instead target the low to mid-level business traveler segment of the market. Their marketing mix emphasized economy pricing and sound-proof rooms designed for both work and comfort. As they have grown they have expanded from their original niche to a multi-segment customer strategy. To be a successful late entry almost always

requires a starting with a niche strategy.

Customer Analysis

Knowing your customers is the key to successful marketing. It involves finding, understanding and satisfying them. The better a firm can satisfy its customers, compared to its competitors, the more successful they will be. Consequently, analyzing customers is the starting point of a good marketing strategy. The customer analysis involves segmenting, targeting, profiling and positioning the market offering to potential customers.

Segmentation

Segmentation is the process of identifying subgroups or segments within the total market based on customers with similar characteristics. Customer characteristics may be organized into demographics: age, sex, income, etc.; geographics: rural, urban, county, state, national, etc.; psychographics: attitudes, interests, opinions, etc.; sociographics: social class, subculture, etc.; and behavioral variables, such as time, place and frequency of purchase, heavy half, etc.

Some examples are the airlines segmentation of pleasure travelers and business travelers based on behavior—a Saturday night stay-over, or movie theaters charging different prices to different age groups—children, students, adults, seniors or by matinee and nighttime audiences. (See Exhibit 3, in the Appendix Sample Marketing Plan, for an example of a Segmentation Matrix).

It is important that the segmentation variables are relevant for designing the marketing program. That is, effective segmentation requires that the chosen segments are reachable and responsive to changes in the marketing mix.

Runner's World Magazine, for example, segmented their market into serious runners and leisure joggers and used a split cover for different appeals to each. For serious runners the magazine used a cover picture of runners crossing a bridge during the New York Marathon; but for leisure joggers the cover picture was actress Donna Mills stretching to tie her running shoes. Except for the cover, the rest of the magazine was identical,

the same stories and the same advertisements on the same pages. The only difference was the split cover appeal to the two segments. Sales increased almost 50 percent. The more popular actress cover was sold at newsstands and other locations for the general public, while the more serious marathon cover was mailed to subscribers. The different segments were reachable and responsive, resulting in a successful segmentation and targeting strategy.

Many companies have shifted emphasis from national to regional segmentation, that is from mass marketing to target marketing. In catering to local tastes, Campbell Soup, for example, uses different recipes for some of its products in different regions of the country. After experiencing declining sales for its pork and beans in the Southwest, Campbell reduced the pork and added chili pepper and ranchero beans to satisfy local tastes. Sales surged. Again the different segments were reachable and responsive to changes in the marketing mix. Another example of a successful segmentation and targeting strategy.

Targeting

After segmentation, one or more segments are chosen as the most likely customers to target. It is toward these designated customer targets that the firm will aim its marketing mix. A company can target the entire market with a single marketing mix. This approach is not really targeting, it is a mass marketing strategy. The idea is a shotgun approach to customers. It is effective when markets are in the embryonic stage and segments have not yet developed. It is also effective with inexpensive commodity type products, such as paper clips and pencils.

In contrast to the shotgun approach of a mass marketing strategy, there is the rifle approach of targeting strategies. Three generic targeting strategies are: niche, multi-segment and across-the-board. With a niche targeting strategy a single marketing mix is aimed at a single segment of the market. As stated previously, it is particularly effective when entering a new market. When Toyota entered the U.S. automobile market, in 1957, they started with a single, small, fuel efficient and inexpensive subcompact model, the Toyota Crown, targeted to budget minded customers.

Followers in an industry often use a multi-segment strategy. This strategy involves targeting several segments of the market with a different

marketing mix for each. As Toyota proved successful in the U.S. market they expanded from cars for the budget minded into automobiles and vans targeted to multiple segments, including sports oriented, large families, and luxury oriented customers. They are increasingly leaving the low margin economy cars to newer rivals, such as South Korea's Hyundai and Isuzu who are following Toyota's original niche strategy as Toyota expands into the more expensive and prestigious oriented segments of the market.

An across the board targeting strategy is typically used by the industry leader. With this strategy, the firm targets all segments of the market with a different marketing mix. As a General Motors slogan once went: "A car for every size purse," meaning they had a product for every customer's income. Indeed, when Alfred Sloan reorganized GM, in the 1920s, he segmented the market by household income levels. Cadillac was targeted toward customers with the highest income, Buick, Pontiac and Oldsmobile for those with higher, medium and lower levels of income, respectively, and Chevrolet for customers with the lowest income. As people became more affluent they were encouraged to trade up their automobile purchases to the next higher price level.

Similarly, IBM targets government agencies for supercomputers, large businesses for large and medium sized computers, small businesses for micro computers, and government, business, and households for personal computers. In just the PC market alone, IBM targets each of their different segments with different products, different prices, different promotions and different distribution outlets; in short, different marketing mixes are targeted to each of the different customer segments. To successfully target distinct marketing mixes to different segments requires an in-depth knowledge of customer characteristics, often called a customer profile.

Customer Profile

The customer profile contains relevant information about the targets. The idea is to create a mental profile of the typical customers in each segment targeted. Before introducing the Saturn automobile in 1990, for example, pictures of typical customers were posted on a large bulletin board. When making design, engineering, production, or marketing decisions, executives were encouraged to frequently view the picture board. It was important that management think of customers in terms of real live

people buying and driving their cars, rather than abstract faceless statistics.

Market Positioning

Positioning refers to how customers perceive a firm's offering relative to competition. It is the bridge between targeting and the marketing mix. If the product is perceived unfavorably, it can be made more attractive by physically altering the product or by repositioning it in the minds of customers. Repositioning can dramatically alter consumer perceptions. If there are any doubts about how much, remember the Marlboro story. The quintessential cigarette for men started its life cycle, in the 1950s, as a cigarette targeted for women. Repositioning to men was not easy, the brand had to overcome such feminine appeals as "Marlboro is Mild as May," and "Ivory tips to protect your lips" But, by repeatedly emphasizing that Marlboro was for the rugged outdoor he-man types, and changing the color of the filters from white to a more masculine tan, even dramatic repositioning from women to men or night to day can be successful—as the Marlboro story demonstrates. (See Exhibit 4, in the Appendix Sample Marketing Plan, for an example of a Positioning Matrix).

Marketing Program

The marketing program (popularly called the marketing mix) is the set of variables that managers use to influence customers. These variables include the product or service, price, advertising and promotion, and distribution and sales force. It is useful to think of a marketing mix as ingredients that are blended together to provide a consistent "package" or brand image to the targeted customer segments. The better the marketing mix satisfies customers, relative to competition, the greater the resulting market share. In writing the plan, for each element of the marketing mix, the basic approach is the same. First describe the current situation, next to identify any additions, deletions or modifications you recommend, and then to explain why you recommend the change or why you recommend keeping things the same.

Product/Service

This section describes the product or service. It includes brand

names, packaging, warranties, hot lines, or any other ancillary services included with the product. It should also discuss future product or service modifications and extensions.

If a firm has several different product lines, or different brands within a product line, it must balance the product portfolio. There is balance in the sense that some products are net cash generators (cash cows and dogs) while others are net cash users (question marks and stars). In a balanced portfolio there are products in the maturity and decline stage that serve as cash cows, they finance R & D efforts to introduce new question marks and to support current stars in the growth stage of their life cycle.

Pricing

The pricing section discusses the price, the rationale for choosing it, as well as any discounts, allowances, trade margins or adjustments. There are three generic approaches; known as the 3 C's of pricing: customer (or demand), competitor, and cost oriented pricing. The highest price possible to charge is the maximum that a customer is willing to pay. The lowest price a firm can offer, and remain in business for long, is its cost of goods plus operating expenses. Typically prices are set somewhere between these two based on competitor's prices.

In demand oriented pricing, customers are charged the highest price that each segment is willing to pay, usually phrased: "what the traffic will bear." Price skimming is an example of demand oriented pricing. With skimming a high price is charged initially. After those who are willing to pay the most actually buy the product and sales begin to level off, the price is lowered to the next segment and the process is repeated. This approach works especially well if the firm has a patent or there are barriers to entry. Otherwise, the same high prices that generate big profits also attract competitors like sharks at a feeding frenzy.

Competitor oriented pricing is particularly common in industries known as oligopolies. These industries sell commodities like steel or aluminum or coal, and all competitors charge the same price. Since a firm can sell all of its output at the prevailing market price, by lowering price it loses revenue. If it charges a higher price than competition no one buys from them. Competition oriented pricing is also prevalent in mature markets, where firms are afraid to rock the boat. Stable prices are the

hallmark of firms following a maintenance strategy, but remember the pitfalls.

Cost oriented pricing relates the price to cost. This method is particularly popular in wholesaling and retailing where a standard markup is common, such as “keystone” pricing or 100 percent markup above cost. In a more sophisticated version, General Motors pioneered the method known as target return (on investment) pricing. To use target return pricing, a firm sets a profit goal percentage (the targeted return) and multiplies by the investment, this figure is divided by estimated unit sales to determine the price necessary to reach the target return.

Advertising and Promotion

The promotional mix includes advertising, sales promotions and public relations. Advertising involves media, such as TV, radio, Internet, newspapers, magazines, billboards, direct mail and telemarketing. Sales promotions include coupons, free give-aways, product placements in movies, trading stamps, two for the price of one deals, point of purchase displays, trade shows, sweepstakes and contests. Public relations is another type of promotion that involves free publicity, such as newspaper articles written about the firm's products.

The easiest way to develop this section is to start with the total promotional budget and break it down into advertising and sales promotions. Then explain the rationale for your breakdown.

The advertising budget is broken down into media subcategories, such as TV, radio magazines, etc. Each subcategory may be subdivided further such as NBC and ABC television shows, or Time and Life magazines. Alternative television programs or radio programs can be compared by using the CRP (cost per rating point); alternative magazines using the CPM (cost per thousand); and alternative newspapers using the milline rate. These measures relate the size of audience or readership to the advertising cost. Costs and circulation/audience size can be obtained by calling the advertising departments of the various media or by using books of “Standard Rate and Data Services” that are found in most libraries or on the Internet.

With sales promotions, breakdown the budget by consumer and trade

promotions, then into types, such as coupons, contests, and so forth. And again, explain your reasoning. How will each advertising media and sales promotion reach a specific customer target. For consumer markets, in particular, suggest a theme or slogan to guide the advertising and sales promotion. If you can think of any means of receiving free publicity, then describe it as well.

Emphasis on advertising is usually termed a "pull" strategy, because ads are directed to household consumers who demand the brand from distributors who, in turn, demand it from manufacturers. Thus the brand is pulled through the channel of distribution. In contrast to pull, is a "push" strategy that emphasizes sales promotions. With push, manufacturers provide incentives to distributors who, in turn, encourage household consumers to buy the particular brand being pushed through the channel.

A general rule of thumb in choosing between the two is to spend more heavily on advertising in the earlier stages of the life cycle and sales promotions more heavily in the later stages. For example, shortly after its introduction, Gillette divided the promotional budget for its new Mach 3 brand about 60% advertising vs. 40% sales promotions; while its mature Atra brand the budget was reversed, about 30% advertising vs. 70% promotion. The proportion for the Double Edged brand, in the decline stage of its life cycle, but a sole survivor still selling to laggards, was even more dramatic, only 5% for advertising and 95% for sales promotions.

In using sales promotions, those directed toward the trade are often more important than consumer promotions. If you were a Bloomingdale's appliance salesperson and General Electric sponsored a contest giving a free trip to Hawaii to the salesperson selling the most GE products in a year, other things being equal, which brand would you recommend to customers?

Sales force

If the firm employs its own salesforce, it is usually considered an element of the promotional mix. However, if a firm employs manufacturer's representatives or sales agents, rather than its own sales force, then it is considered an element of distribution. It is less clear where personal selling should be considered when choosing between a company's own salesforce or independent reps and agents. To avoid confusion, it is

recommended that salesforce issues be discussed separately in its own section.

There are many considerations in choosing between a company sales force or manufacturers representatives. A small financially weak firm attempting to reach a large market would probably use reps or agents, whereas a large financially secure firm could afford it own salesforce. Reps are generally paid on commission and are therefore a variable cost, where a sales force is usually paid a base salary (plus expenses) which is a fixed cost. For small companies variable costs are less risky, in contrast to large firms that can absorb the risk and afford the fixed expenses of in-house activities. A company's own sales force is obviously more loyal and focused on the company's own products, but have to be trained and motivated. Manufacturers reps and agents sell complimentary, but non-competing, lines for several companies, but have less incentive to sell any particular firm's products.

Information about salaries, commissions and other forms of compensation, as well as recruitment and training should also be described in this section.

Distribution (Location)

Distribution includes channel members, i.e., wholesalers and retailers, or types of outlets that will sell the manufacturer's products. The functions performed by wholesalers, agents and retailers, and the store image of retailers, along with costs, are the primary reasons for choosing among types of the various types of channel members.

At the retail level of distribution, channel selection also involves the number of retailers, in a given geographical market, carrying a seller's products. Retail coverage may be intensive, selective or exclusive.

Intensive distribution attempts to sell products through every available outlet in a given geographical area. For example, Wrigley gum or Marlboro cigarettes can be found in every convenience store, drug store, and supermarket in a given area. But other brands of gum and cigarettes are also sold in every outlet, so none get special attention. Exclusive distribution reduces distribution coverage to a single store, or chain, in the desired market. There is seldom more than one store in a geographical area

selling Bang and Olufson stereo equipment. Dealing with a single brand, the sales people are experts in the product and provide a high level of services. Selective distribution provides coverage between every outlet available and a single outlet, by offering a firm's products to a select group of outlets in a chosen area. Several chains of electronics and appliance stores carry Compaq computers, for example. But they also sell a few others, such as Hewlett Packard or Sony. So each brand gets some sales attention, but none get exclusive attention and none get ignored.

If necessary, discussion of physical distribution, i.e., storing and transporting products, also goes in this section. Issues typically involve trading off moving goods to customers or moving customers to goods..

In the case of services, this section is usually relabeled "*Location*" and discusses places where outlets are currently located and where they will locate in the future. Convenience and fast food stores obviously want to open new outlets in high traffic locations with little competition. Some considerations for locating outlets domestically, include: size of population, rate of growth, and income levels. Internationally, consideration should also be given political stability and cultural differences.

Other Elements of the Marketing Mix

Other elements of the marketing mix (beyond the four P's) may be included as well. For example, if consumer surveys, focus groups or competitive information are necessary for future decision-making, then a *Market Research* section could be added. If there is a necessity for a major public relations campaign it might be included under *Advertising and Promotion* or a separate *Public Relations* section could be added. Similarly, if the management of a small company does not have expertise in marketing, then it might be useful to add a *Marketing Manager* section detailing the job qualifications, duties and compensation.

OTHER SECTIONS

Other sections of the plan are included as needed. For example, if there are problems with reporting relationships within the organization, a section called Organizational Structure could be included. If it is important to explain technical characteristics of the product a section on Product

Design may be necessary (or it may be discussed in an Appendix).

In some plans a conclusion section is warranted. For example, sometimes it is not possible to achieve profitability or other financial goals during the time horizon of the plan. This is particularly true for new entry strategies. In such a case include a Conclusion section stating that there does not appear to be any feasible strategy that will achieve the financial goals, and therefore the product should not be introduced to the market.

A marketing plan may stand alone, but it is often incorporated into a business plan. The business plan is more encompassing than a marketing plan because it includes additional sections; such as organizational structure, a section on production in a manufacturing firm, merchandising in a retailing company, or operations in a service firm. Moreover, a business plan generally contains a more detailed discussion of finances, including cash flow and ratio analysis, than a typical marketing plan. In a new venture seeking start-up capital, include a section with biographies of key management personnel. Other than these additions, the two plans are very similar because a marketing plan is the dominant element in a business plan. If it is necessary to expand the marketing plan into a business plan, just include the additional sections, R & D or Operations or Human Resources, as required.

APPENDICES

Appendices contain relevant information that support points made in the body of the plan. One appendix that is mandatory is a Pro forma Income Statement (see Appendix A in the Appendix Sample Marketing Plan for an example). Here, revenues, expenses and profits are projected monthly, quarterly or annually. Budget statements and cash flow projections are also important.

Another useful appendix is a Breakeven Analysis. The number of units that must be sold to breakeven (where profits and losses equal zero) is calculated by dividing total fixed costs by contribution margin. The contribution margin is calculated on a per unit basis by subtracting variable costs from selling price. (See Appendices B or C in the Appendix Sample Marketing Plan for examples of a Breakeven Analysis.)

Include any other appendices that are needed. These may involve

tables, charts, maps, or calculations of figures to support points made in the body of the plan. Any other relevant information of a technical nature not included in the body of the plan may also be included as an appendix.

EXECUTIVE SUMMARY

Although it is written last, the executive summary is the first page of the plan. As the name suggests, it summarizes the most important points. The executive summary, for the most part, follows the same organization as the plan. Each section of the plan is summarized in one to a few sentences. The easiest, fastest and most effective method of writing the executive summary is to follow the paragraph format below.

The first paragraph summarizes the important elements of the situation analysis. In the first sentence state: (a) the name of the company, (b) the year founded, and (c) what business the firm is in or market they are thinking of entering. If the focus of the plan is an SBU, rather than the company as a whole, then use a transition sentence from the former to the latter. For instance, “Procter and Gamble sells eleven brands of detergents and this plan focuses on Tide.” Then state the same three elements in the first sentence for the SBU. As an option, if something important is going on in the company, such as a merger or a new product launch, say it in a sentence.

Describe the purpose for writing the plan in the next sentence (and if you want to raise funds, include capitalization requirements). For example: “The purpose of this plan is to develop a marketing strategy to (state your specific goal: raise \$5 million in capital to achieve \$15 million in profits by 2005” or “...to increase market share from 12 percent in 2003 to 15 percent in 2006). The final sentence describes the opportunities in the environment that will allow you to achieve the goal. For example, “it is likely that XYZ Inc. will achieve this goal because the industry is growing at 50 percent per year.” However, if the environment is stable, turbulent or hostile, then state your competitive advantage (described below) as the reason you expect to achieve your goal.

The second paragraph contains the key points of the industry analysis and competitive analysis. The first sentence focuses on the industry. Identify (a) last year’s sales (in dollars or units), (b) the projected rate of growth for the next 3 to 5 years, and (c) the stage of the industry

lifecycle. Alternatively, instead of the entire industry (e.g. automobiles), you could focus on your targeted segment (e.g. subcompacts, SUVs, luxury automobiles).

Identify the direct competitors in the next sentence of the second paragraph. For example: “The direct competition for BMW’s Z-3 includes Mercedes-Benz SLK, Porche Boxter, Audi TT and similar brands of luxury sport roadsters. In the final sentence state the company’s competitive advantage. “The ABC company’s competitive advantage is the largest advertising budget in the industry.”

Although it appears next in the plan, skip the objectives section until the last paragraph. Marketing strategy and customer targeting are described in the third paragraph. State your strategy in the first sentence, and what it means in the second. For example: “The ABC Company should use a penetration strategy. ABC should reduce price, increase advertising, and expand distribution. After the strategy identify your target market(s). If you use a targeting strategy (niche, single segment, multi-segment, across the board, etc.) you can combine strategy and targeting in one sentence. “XYZ should use a niche strategy targeting affluent-healthy-retired people” or “ABC should use a multi-segment strategy targeting high income Professionals, Executives, and Entrepreneurs.

The next paragraph discusses the marketing mix. If it becomes excessively long divide it into two (three or four) paragraphs. The general format for each marketing mix element is the same: (a) state the current situation, (b) what you are going to change over the next three to five years (or that you are going to keep things the same), and (c) why.

With the product, mention its key features, what are you going to modify, add, delete. Why? State the price, the impact of reducing or increasing it 20 percent or so, and why you rejected the change. Provide a budget for advertising and promotion and state the primary media you will use and the main sales promotions. If a sales force is involved, how many? Which territories? How compensated? What changes over the next three years? If you are dealing with a service, which locations? How many will be added? Where? When? Why? If a product, what channels of distribution will you use? If B2B, how are suppliers integrated? If B2C, what type of retail outlets? How many? Where? Why? Include a sentence

or two about any additional elements of the marketing mix that are included in the plan.

If there are “Other” sections in your plan, such as key personnel and organizational structure or manufacturing operations, describe each in a paragraph.

The last paragraph states your confidence in achieving the goal: “Based on the marketing strategy detailed in this plan, it is anticipated that XYZ Inc. is likely to achieve (restate goal from first paragraph) \$5 million in profits by 2005.

After the executive summary is completed it is placed at the front of the plan, before the Table of Contents (see the Appendix Sample Marketing Plan for an example of an Executive Summary and a Table of Contents).

CONCLUSION

The marketing plan offers management a systematic method for capitalizing on market opportunities as well as addressing future business contingencies. It provides a framework and a guide to making more effective marketing decisions—decisions that get winning results. It is as relevant to a small business as it is for the largest corporations. The planning horizon can range from short term, a year or less, to long term, five or more years. Generally, larger sized businesses require longer the planning horizons.

Planning is a continuous process, not just a one time activity. Effective planning results from frequent practice in developing and analyzing plans, just as good forecasts result from frequent practice and analysis of forecasting variances. After writing the marketing plan it should not be left to sit idly-by. A marketing plan should be routinely audited. Deviations from performance goals should be identified, by subtracting actual from projected results, and corrective actions undertaken. Small deviations may suggest such actions as a minor price adjustment or increased promotional effort. Large deviations may require fundamental changes in overall strategy, customer targets or brand positioning.

The marketing audit is the basis for developing a new situation analysis, and is therefore the foundation for future objectives and strategies.

Consequently, while the audit is based upon the plan, the subsequent plan is based upon the audit. Thus, we come full circle, having arrived at the final step in the planning process, the first step in developing a new plan has been reached again as well.

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**APPENDIX:
SAMPLE MARKETING PLAN**

STRATEGIC MARKETING PLAN

for

APPLIED RESEARCH SYSTEM'S

"ACCUTEMP"

prepared by

Dr. Eric H. Shaw & Associates
Consultants in Business Planning & Marketing Strategy
Boca Raton, Florida

August, 1993

For exclusive use in class discussion of marketing planning and strategy.

EXECUTIVE SUMMARY

The recent development of Accutemp offers Applied Research Systems (ARS) an exciting opportunity in the temperature measurement field. Accutemp is the most accurate instrument in the world. The purpose of this marketing plan is to develop a strategy to introduce Accutemp into the market and achieve profits of almost \$1.3 million by 1995. Success of this project is enhanced due to pending FDA guidelines requiring more accurate temperature measurement for pharmaceutical manufacturers. Success of Accutemp would also allow ARS to diversify from its environmental consulting services which fluctuates widely from year to year.

The high accuracy segment of the temperature measurement industry is estimated at \$50 million for 1993, is expected to grow at 30% per year for at least the next three years and is in the growth stage of its life cycle. There are two entrenched direct competitors, ABC and XYZ, as well as two potential competitors, LMN and PQR, considering entry in the market.

It is recommended that ARS use a niche strategy for 1993, targeting Pharmaceutical manufacturers who require the highest accuracy in temperature measurement. In subsequent years, a multi-segment expansion strategy is suggested.

Accutemp is a micro-processor based temperature measurement instrument using platinum resistance measurement probes to achieve an accuracy of $\pm 0.02^{\circ}\text{C}$; the highest accuracy in the industry. The R&D budget is set at 30,000 for 1993. ARS will use price skimming, charging a premium price of \$6,000 and reducing it by about \$500 per year for the next two years. The advertising and promotional budget is \$40,000 for the first year and is expected to double by the third year of the plan. Advertising will consist of pharmaceutical trade journal advertisements and direct mail. Promotion will involve pharmaceutical trade shows, and there will also be public relations. All advertising and promotion will emphasize the "Accuracy of Accutemp." Direct orders from advertising and promotion are expected to account for about 50 percent of sales. The remaining 50 percent of sales are projected to come from manufacturers representatives who will be hired at 10 percent commission. In addition, a marketing manager will be hired to manage all aspects of the marketing program. The manager will be paid a salary of \$45,000 plus a bonus for exceeding the profitability goals.

Based on the recommendations described in this strategic marketing plan, it is anticipated that Accutemp will more than double profits from \$495,000 in 1993 to \$1,280,000 in 1995.

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ACCUTEMP SITUATION ANALYSIS

This section includes a description of the company background and an analysis of the organization, environment, industry and competition.

COMPANY BACKGROUND

Applied Research Systems (ARS) was founded in 1985 in southeast Florida to provide research and consulting services in the environmental control field. While ARS has grown to a five million dollar business, sales fluctuate widely from year to year and profits are less than a million.

To reverse this unsatisfactory performance, and reduce dependence on the consulting services, ARS is considering the feasibility of producing and marketing a highly accurate electronic temperature measurement instrument named "Accutemp." With the exception of relatively minor technical problems, response to the Accutemp prototype has been extremely favorable among users. The purpose of this plan is to develop a marketing strategy to introduce Accutemp into the market and achieve profits of \$1.28 million by 1995.

ORGANIZATIONAL ANALYSIS

This section identifies conditions and trends within the organization that represent competitive strengths or weaknesses.

Strengths

1. ARS has developed the most accurate electronic temperature measurement instrument available in the market.
2. ARS has survived for seven years despite meager profits.

Weaknesses

1. ARS management lacks knowledge of the electronic measurement field.
2. ARS has no experience in manufacturing operations or product marketing.
3. ARS has almost no retained earnings for research and development, production or marketing.
4. ARS is dependent on environmental consulting services which has proven unstable.

ENVIRONMENTAL ANALYSIS

This section identifies conditions and trends outside of the organization that represent environmental opportunities or threats.

Opportunities

1. The high accuracy segment of temperature instrument market is growing rapidly at 30 percent per year.
2. Pending FDA Guidelines requiring pharmaceutical manufacturers to provide greater temperature measurement accuracy will create immediate demand for Accutemp.

Threats

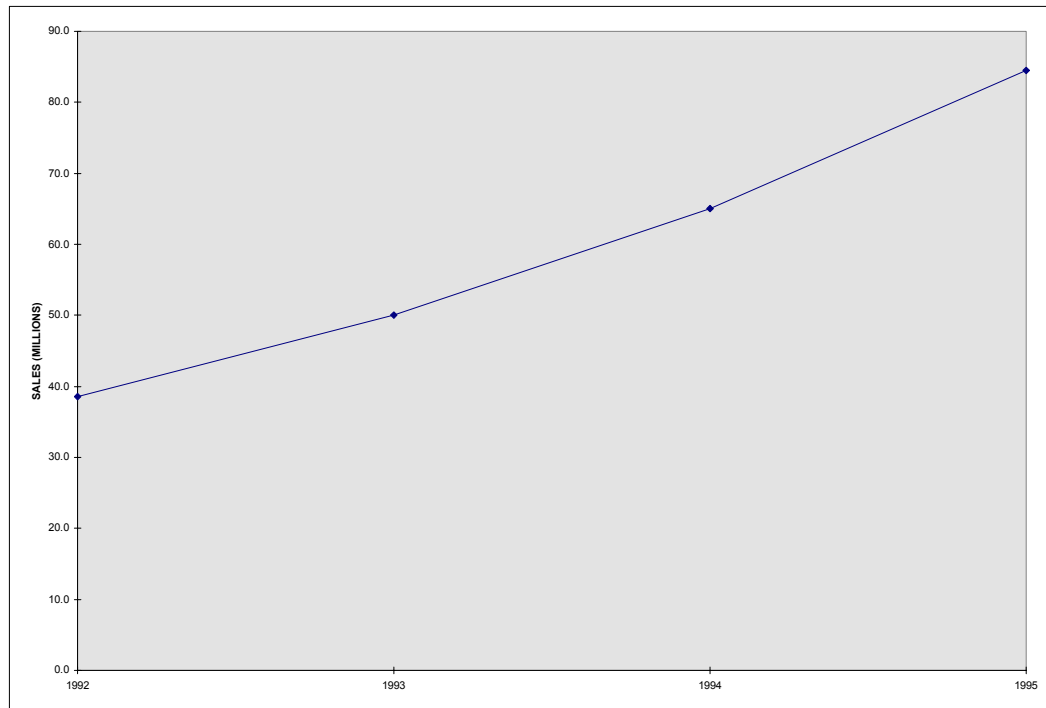
1. Competitors in the temperature measurement market could duplicate ARS state-of-the-art technology within a few years.
2. The economy is expected to continue at a low 1 to 2 percent growth rate for at least another year, a slow growing economy is generally a bad time to introduce a relatively expensive new product.

INDUSTRY ANALYSIS

The electronic temperature measurement industry is divided into three segments, each growing at different rates. The low accuracy category is the largest segment of the market estimated at \$300 million in 1992 with the slowest growth rate at 5 percent a year. The intermediate segment is projected at \$100 million growing at 15 percent annually.

The high accuracy category is of most interest, however. It is forecast at \$50 million in 1993 with a growth rate of 30 percent annually. High accuracy temperature measurement is in the growth stage of the industry life cycle, see Exhibit 1.

EXHIBIT 1 HIGH ACCURACY TEMPERATURE MEASUREMENT LIFE CYCLE, 1992-1995



The rapid growth of the high accuracy segment of the industry will be fueled by pending FDA guidelines requiring better quality control in pharmaceutical manufacturing.

COMPETITIVE ANALYSIS

Direct Competition

The direct competition for Accutemp include two firms, ABC Inc. and XYZ Co. Another two firms, in the intermediate segment of the market, LMN Inc. and QPR Ltd. also appear capable of achieving high accuracy instruments and they represent potential direct competition. It is expected that one or both of these firms will expand into the high accuracy segment within one or two years.

It is unlikely that any of the above firms will be able to develop a comparable instrument to Accutemp for at least one or two years without violating ARS patents. See Competitive Matrix, Exhibit 2.

EXHIBIT 2
COMPETITIVE MATRIX FOR HIGH ACCURACY
TEMPERATURE MEASUREMENT INSTRUMENTS, 1992

Competitor	Sales (mil.)	Market Share	Degree of Accuracy	Selling Price
ABC Inc.	\$30.0	60.0%	$\pm 0.4^{\circ}\text{C}$	\$2,500
XYZ Co.	\$20.0	40.0%	$\pm 0.2^{\circ}\text{C}$	\$3,000
ACCUTEMP*	\$.06	<0.01%	$\pm 0.02^{\circ}\text{C}$	\$5,000

The Matrix shows that Accutemp has the most accurate instrument in the market.

*Based on three month Accutemp test market in 1992, consisting of two trade journal advertisements and one trade show, ARS sold twelve units at an average selling price of \$5,000.

Indirect Competition

There are more than 20 firms in the low and intermediate segments of the market who represent indirect competition to ARS. Their instruments are of much lower accuracy and they have virtually no potential to match Accutemp.

ACCUTEMP OBJECTIVES

The objectives section consists of the business mission and performance goals.

ACCUTEMP MISSION

Accutemp's mission to provide customers with the most accurate temperature measurement instrument in the world.

ACCUTEMP PERFORMANCE GOALS

Performance goals for Accutemp are shown in Exhibit 3, below:

EXHIBIT 3
ACCUTEMP PERFORMANCE GOALS
1993-1996

	1993	1994	1995
Unit Sales ¹	200	320	512
Sales Revenue ²	\$1,200,000	\$1,760,000	\$2,560,000
Market Share ³	2.4%	3.0%	3.4%
Profits ⁴	\$495,000	782,000	\$1,330,000

The forecast of performance goals show Accutemp more than doubling profits in three years.

¹Unit Sales forecast for 1993 based on projection from three month test market, estimate to grow at 60 percent (twice the industry average) based on superior market strategy.

²Sales Revenue = unit sales x price (\$6,000 in 1993, \$5,500 in 1994, and \$5,000 in 1995; see Pricing section for details).

³Market Share = sales revenue / industry sales (for industry figures see Industry Analysis section).

⁴Profits are calculated in Appendix A, Pro forma Income Statement.

ACCUTEMP STRATEGY

The strategy section consists of a strategic overview, a customer analysis, and a marketing program.

STRATEGIC OVERVIEW

It is recommended that Accutemp follow a niche strategy for 1993, targeting pharmaceutical customers requiring the highest accuracy temperature measurement instrument.

After Accutemp gains a toehold with their primary target market, during 1994 or 1995, it should move toward a multi-segment expansion strategy, additionally targeting university and electric utility segments who require very high accuracy instruments.

ARS's major competitive advantage is a superior product, therefore ARS should place heavy emphasis on R & D to maintain its lead in the temperature measurement field. Over the next two years, ARS should aggressively reduce price to delay competitive entry.

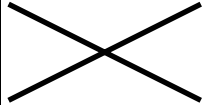
CUSTOMER ANALYSIS

The customer analysis includes sections on segmentation, targeting, customer profile and positioning.

Segmentation

The market for temperature measurement can be segmented by industry sector and degree of accuracy required, see the segmentation matrix, Exhibit 4.

**EXHIBIT 4
SEGMENTATION MATRIX FOR
TEMPERATURE MEASUREMENT MARKET**

	Industry Sector			
Degree of Accuracy	Pharmaceu- ticals	Universities	Electric Utilities	Other
Low				
Intermediate				
High				

Targeting

For 1993, it is recommended that ARS target Pharmaceutical manufacturers requiring the highest accuracy in temperature measurement because of the pending FDA guidelines. If the profitability goals are achieved, in 1995, the additional segments of universities and electrical utilities requiring high accuracy should be targeted.

Customer Profile

Pharmaceutical manufacturers requiring high accuracy, the primary target, are concerned with the pending FDA guidelines. These guidelines mandate better quality control in manufacturing processes, which means more accurate temperature measurement will be required. There are approximately 1,000 pharmaceutical manufacturers in the United States.

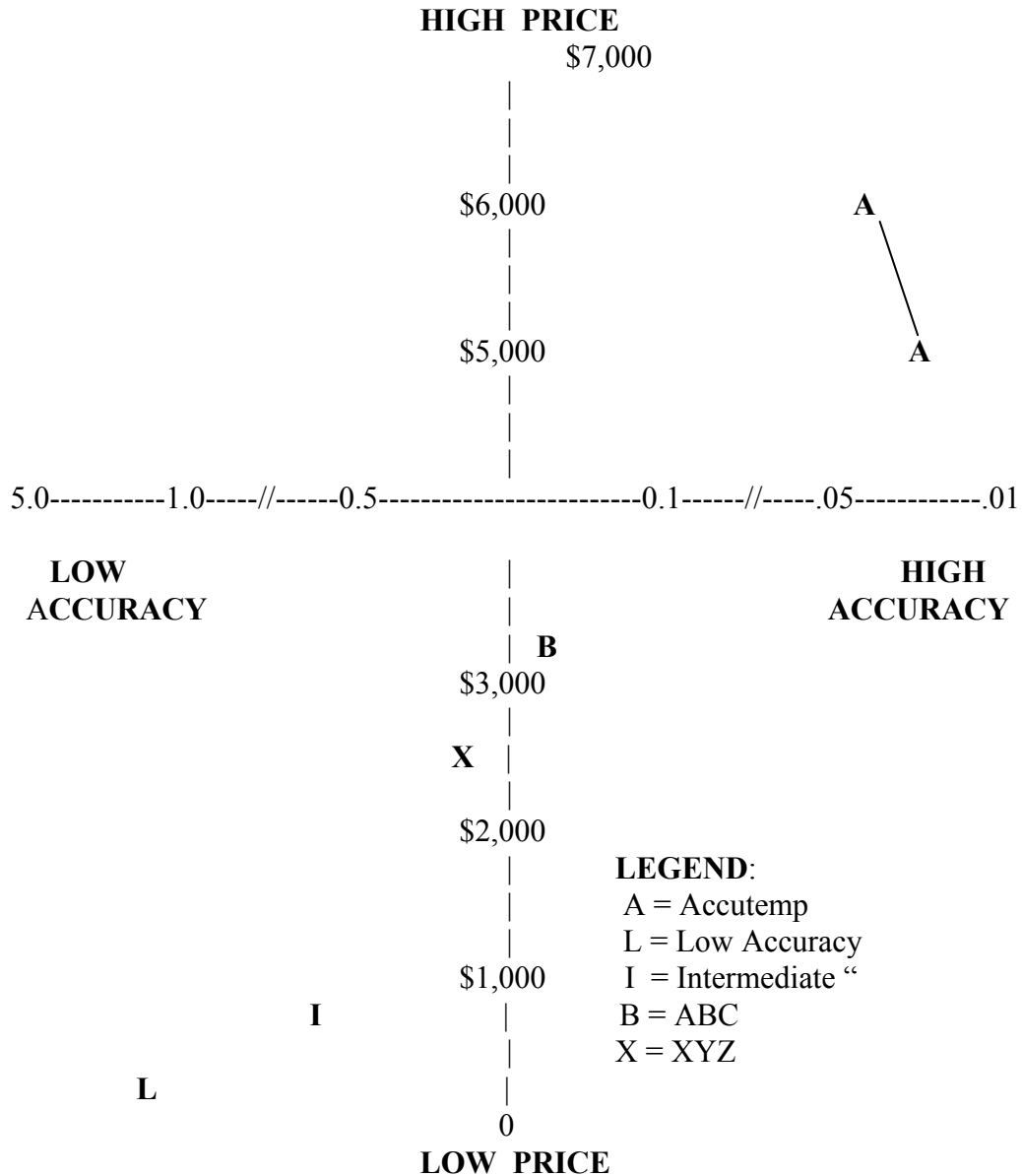
Also considered for targeting in 1994 or 1995 are universities and electric utilities requiring high accuracy. Universities need to keep current with the latest technology for scientific purposes. There are roughly 200 universities that are large enough or that have sufficient resources to use Accutemp.

Electric utilities could also benefit from precision measurement by reducing costs. There are roughly 100 utilities who are potential customers for Accutemp.

Positioning

Accutemp and its competitors are positioned in the market based on their accuracy and price. See Positioning Matrix below:

**EXHIBIT 5
POSITIONING MATRIX**



Accutemp is positioned with the .02° accuracy and a price of \$6,000. By 1995 Accutemp will be repositioned to an accuracy of .01° and a price of \$5,000.

MARKETING PROGRAM

The section discusses the product/service, pricing policy, advertising and promotion, distribution and sales force.

Product/Service

AccuTemp is a superior high accuracy temperature measurement instrument. It measures 6"x2"x1/2", is micro-processor based, and uses platinum resistance measurement probes with an accuracy of $\pm 0.02^{\circ}\text{C}$. The temperature readout is similar to a digital watch.

An instruction manual and a one year full-service warranty will be included. A toll free 800 number will be available for customer orders, inquiries and service.

R & D will be budgeted at \$30,000 in 1993 to continue work on improving Accutemp.

Pricing Policy

The current \$5,000 selling price will be raised to \$6,000 in 1993. Since demand for Accutemp is likely to be highly inelastic due to the pending FDA guidelines, and also because it will take competition at least a year or two to develop a comparable instrument, ARS can employ a price skimming strategy. The initial \$6,000 price will allow ARS to recoup costs more rapidly (as shown in the breakeven comparison below) and make additional funds available for R&D.

If customer resistance is encountered at the higher price, it could be lowered back to \$5,000. As costs are reduced by economies of scale in production, it is anticipated that the price will fall from \$6,000 in 1993 to \$5,500 in 1994, and to \$5,000 in 1995. The reduction in price should also discourage competition.

Breakeven at the \$6,000 price is 62 units, at \$5,500 it is 71 units, and at a price of \$5,000 breakeven is 83 units (see Appendix B for break even calculations).

Advertising and Promotion

The total advertising and promotional budget is allocated at \$40,000 for 1993. It will consist of a mix of trade journal advertising and booths at trade shows for the primary target, and direct mail for both primary and secondary targets. Free publicity will also be developed. The theme of all promotions will emphasize: "The Accuracy of Accutemp," and the FDA's new guidelines.

A half-page advertisement will be taken out bi-monthly in the leading pharmaceutical trade journal—*Pharmacology Today*. Cost is estimated at \$2,500 per insertion and \$5,000 for production of the ad, or \$20,000 total.

Booths will be taken at the semi-annual pharmaceutical manufacturers' trade shows. Costs are estimated at \$3,000 per booth and \$2,000 for travel and expenses, or \$10,000 total.

A trifold four-color brochure will be mailed to the primary and secondary targets twice a year. The mailer will include a toll free number and mailing address for inquiries and orders. The pieces will be mailed a month before "traditional" budget submission dates for fiscal years beginning January 1 and July 1. Costs of production are estimated at \$4,500; and mailing costs, labels, etc. about \$500 (\$.16 per piece bulk mail x 1,300 x 2; plus \$80 for labels, etc); for a total cost of \$5,000.

Free publicity can be developed by mailing a press release to major journals in the targeted industries and general news publications, again emphasizing: "The Accuracy of Accutemp." The cost of a PR consultant to write the press release and solicit its publication is estimated at \$5,000.

Salesforce

Due to ARS management's lack of expertise in the temperature measurement industry, and ARS's minimal financial resources, manufacturers representatives are a more feasible alternative than a company salesforce. First, manufacturers reps are already knowledgeable in the temperature measurement field, compared to ARS management who would have to train the salesforce or hire salespeople from competitors.

Second, manufacturers reps receive commissions after the sale and represent a variable expense rather than the fixed cost of a company salesforce. Moreover, manufacturers reps pay their own travel expenses. The breakeven point for two salespeople at \$25,000 salary plus \$25,000 in expenses is 86 units; however, the breakeven point is only 66 units for an unlimited number of manufacturers reps at 10 percent commission (see Appendix C for calculations).

It is anticipated that manufacturers reps will generate 50% of Accutemp revenues and the remaining 50% of sales will be generated by direct customer inquiries to ARS's advertising and promotional program.

Distribution

ARS should concentrate sales in Florida and the Southeastern region during 1993. This will reduce the costs of sales calls, shipping and service until significant revenues are received. By 1994, Accutemp sales are expected to be strong enough to expand to the national market.

Marketing Manager

Since no one in the organization has familiarity with product management or the temperature measurement field, it is recommended that ARS hire a full time marketing manager for Accutemp. The ideal candidate is a mid-level product manager with experience in the temperature measurement industry. A starting salary of \$45,000 to \$55,000, depending on qualifications, is recommended. Significant bonuses should be linked to achieving ARS's profitability goals.

APPENDIX A
PRO FORMA INCOME STATEMENT
FOR ACCUTEMP 1993-1995
(thousands)

	1993	1994	1995
Sales Revenues ¹	\$1,200	1,760	\$2,560
Cost of Materials & Labor ²	400	576	768
Gross Margin	\$800	\$1,184	\$1,792
Expenses:			
Allocated Overhead ³	100	100	100
Administration ⁴	30	35	40
Marketing Manager ⁵	45	55	65
R & D ⁶	30	40	50
Advertising & Promotion ⁷	40	59	79
Sales Commissions ⁸	60	88	128
Total Expenses	305	377	462
Profits (EBIT)	\$495	\$807	\$1,330

¹Sales Revenues taken from Performance Goals Section.

²Cost of materials and labor at estimated at \$2,000 per unit, declining to \$1,800 in 1994 and \$1,500 per unit in 1995 due to economies of scale.

³Allocated overhead estimated by the Executive Committee.

⁴Administration costs estimated by Executive Committee.

⁵Marketing Manager salary based on Executive Compensation Comparisons. Annual increases include bonuses for meeting profitability goals.

⁶For R&D budget see Product/Service Section.

⁷See Advertising and Promotion Section for details.

⁸Sales Commissions estimated at 10 percent of half the sales revenues.

**APPENDIX B
BREAKEVEN CALCULATIONS
FOR PRICING ALTERNATIVES, 1993**

The breakeven calculations are based on the formula:

$$\text{fixed costs} / (\text{selling price} - \text{variable costs}) = \text{breakeven point}$$

Price Alternatives:

- a. \$6,000 price: $\$245,000 / (\$6,000 - 2,040) = 62$ units
- b. \$5,500 price: $\$245,000 / (\$5,500 - 2,040) = 71$ units
- c. \$5,000 price: $\$245,000 / (\$5,000 - 2,040) = 83$ units

Fixed costs include all Expenses shown in the Pro forma Income Statement, Appendix A, excluding variable costs. Variable costs are the per unit cost of Materials and Labor plus Sales Commissions.

**APPENDIX C
BREAKEVEN CALCULATIONS
FOR DISTRIBUTION ALTERNATIVES, 1993**

The breakeven calculations are based on the formula:

$$\text{fixed costs} / (\text{selling price} - \text{variable costs}) = \text{breakeven point}$$

Distribution Alternatives (at a selling price of \$6,000):

- a. Salesforce: 2 people @ \$50,000 salary and expenses:

$$\frac{\$245,000 + \$100,000}{\$6,000 - \$2,000} = 86 \text{ units}$$

With the salesforce alternative, salary plus expenses are added to fixed costs and manufacturers representatives commissions are subtracted from variable costs.

- b. Manufacturers Reps: unlimited number @ 10% commission

$$\frac{\$245,000}{\$6,000 - \$2,000 - 600} = 66 \text{ units}$$

With the manufacturer representatives alternative, fixed costs are the same expenses shown in Appendix B, and manufacturer reps commissions are added to the variable costs of labor and materials.

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NOTES