SMALL BUSINESS OWNER'S HANDBOOK

PART IV:

MARKETING FOR A SMALL BUSINESS

Introduction

What is Market Research?

Market research is a simple process of gathering information. It allows the individual to forecast what level of sales their new product will generate, at what profit and how best to optimize the sales. If the individual did not do any research, they would not know whether they were developing a product that was already on the market, whether there was a demand for their product or if the product could be profitable. On the other hand, if research indicated that a product met a certain need and could be produced and sold for profit, there could be a potential demand for your product idea.

Some questions to determine how much of the product you could hope to sell at a profit and the best way to sell it are provided below:

- What do you plan to sell - a product or service?
- What need does the product or service meet?
- How does it meet that need?
- Who needs this product or service?
- How many people will buy this product or service?
- What advantage does this product have over other similar products?
- What price will customers pay for the product or service and how often will they buy it?
- Can it be produced at a profit?

These questions should be reasonably answered in order to assist you with attaining your goals. Answering these questions objectively will help you to determine a potential market for your product and build a marketing plan. On the other hand, if your research is not favourable, you may wish to reconsider before proceeding further, and drop the idea.

Analyzing Your Business

Before you can develop an effective marketing plan for your business, you must know the answers to the following key questions:

1. What business are you really in?
2. What are the relative strengths and weaknesses of your company?
3. What are the strengths and weaknesses of your products and services?
4. What are your company's goals?

What Business Are You Really In?

If you are already in business, you may think you know the answer to this question. However, many small (and not so small) businesses fail because their owner/operators do not clearly understand what business they are really pursuing and how they can best satisfy the needs of their customers.

Identifying Strengths and Weaknesses

When identifying the strengths and weaknesses of your company, it's important to consider all aspects of your business, including the following:

- Company image
- Products and services (including price)
- Benefits to customers
- The cost of producing these products and services
- Management skills
- Human resources
- Business location
- Facilities and equipment
- Financial situation, including financing, cash flow, and net profit

For example, our pasta maker might have identified the following:

Strengths:

- Pasta product made from the highest quality, all-natural, organic ingredients
- Excellent quality control standards and the latest equipment
- An excellent reputation with existing customers means positive word-of-mouth advertising

Weaknesses:

- Lack of training for production staff
- No salespeople and no marketing plan
- Consumers not aware of the health benefits of organically-produced, all natural pasta

Setting Company Goals

For company goals to be effective, they must be realistic, consistent, specific, and measurable within a certain period.

Unrealistic:	To be the leading pasta maker in Saskatchewan.
Realistic:	To increase market share in Saskatoon by 10% within two years.
Inconsistent:	To decrease management overhead and to increase managerial contact with customers.
Consistent:	To decrease managerial overhead by 20% within three months and to increase sales personnel contacts with customers to twice annually.
Not specific:	To increase sales of pasta sauces to complement fresh pasta sales.
Specific:	To increase sales of pasta sauces by 15% within one year.
Non-measurable:	To provide the highest quality product and service in the market.
Measurable:	To reduce complaints from customers by 50% within six months.

Goals Checklist

1. Clearly state what business you are in, including the key idea or concept that makes (or will make) your business successful.
2. Write a mission statement of between 20 and 35 words for your company. Refine it until it is clear and concise.
3. Identify the strengths and weaknesses of both your company and its product or service.
4. Identify ways to overcome your weaknesses and take advantage of your strengths in the marketplace.
5. Set five realistic, specific, measurable goals for your company.

Analyzing the Market

Now that you have confirmed what business you're in, it's time to assess and plan your company's place (or potential place) in the market. There are two key components to understanding the market: knowing your customers and knowing your competitors. Market research will help you better understand both components.

Knowing Your Customers

A market, simply put, is a group of people with wants and needs, values, expectations, money to spend, and a willingness to spend it. They will exchange their money for products and services for one of three reasons:

- To satisfy basic needs
- To solve problems
- To make themselves (or someone else) feel good

You must know exactly who these people - your customers and potential customers - are; then you can give them what they want and need. This is the key to building a strong, profitable business.

If you're selling to consumers, you need to know the following:

1. Where your customers, or potential customers, live;
2. Their age and gender;
3. Their occupation and level of education;
4. Their family size and description;
5. Their income (particularly their disposable income);
6. Their consumer wants, needs, and current buying habits;
7. How they spend their leisure time;

If you're selling to another business, you need to know the following:

1. The type of industry and its location;
2. Its products, services, and annual sales volume;

3. The number of employees;
4. The specific needs of those who will use your product or service;
5. How purchasing decisions are made and who makes them;
6. Purchasing policy, including buying volume, seasonal buying patterns, and purchase orders;

Knowing Your Competition

Knowing who your competitors are, as well as their strengths and weaknesses, is an essential part of assessing the market for your product or service.

Understanding your competitors will help you do the following:

- Better understand your customers and potential customers
- Anticipate and effectively counter your competitor's moves and strategies
- Identify your strengths and weaknesses relative to those of your competitors
- Identify ways of improving your product or service
- Be aware of any new threats or challenges to your business
- Identify, or create, a market niche not being served by your competitors
- Predict market trends and estimate your future market share

Most businesses have direct and indirect competitors. For example, our pasta maker's direct competitors are other local fresh pasta makers and dry pasta manufacturers. His indirect competitors include other health food producers, as well as producers of rice, potatoes and fries.

Estimating Your Market Share

With a clearer understanding of both your customers and your competition, you can more accurately estimate your market share. If you have an existing business, your market share is simply your portion of the total market for your product or service, usually expressed as a percentage of total sales.

If you are starting a new business or launching a new product or service, estimating your market share involves three main steps:

1. Estimate the total market (total sales in dollars) for your product or service in your market area.
2. Consider your competitors and how much of the total market each competitor has now.
3. Decide on a figure for your market share.

Market share estimates are valuable because they establish clear, measurable goals for company performance, are often used in budget projections, and are of great interest to potential investors and lenders.

Step-by-Step Market Research

Step One: Setting Terms of Reference At this stage

It is important that you clearly define why you are doing the market research. This involves identifying the following:

- The specific problem or opportunity you want to address in your market research
- Your objectives: the facts and information you wish to acquire
- That business and marketing decisions you wish to make based on the results of your market research

Step Two: Choosing the Method, Time and Budget

Most successful companies regularly plan, schedule, and budget for market research as part of company operations. Specific research is often done before major marketing decisions are made or after an advertising campaign, to measure results. The method of market research you choose should be based on what you need to find out, how much detail you need, and how much time and money is available to complete the research.

Step Three: Collecting the Information

Once you have chosen the methods you will use to complete your market research go ahead and collect the information. Be flexible. If you are not getting the information you need, change your research methods, and adjust your timelines and budget accordingly.

Step Four: Analyzing the Information

Look at all the information you have collected from every source; then answer the following questions:

- Do you have enough information to make knowledgeable decisions?
- If not, what information is missing?
- Are there any contradictions or inconsistencies that need further clarification?
- What conclusions can you draw from the results?
- What business decisions can you make based on these conclusions?

Overall Research and Analysis Checklist

Yes No

☐ ☐ 1. I clearly understand what business I am in and what I am really selling.

☐ ☐ 2. I know the strengths, weaknesses, and goals of my company.

☐ ☐ 3. I know my target market. I know who my customers and potential customers are, and I understand what motivates them to buy (or not to buy) my product or service.

☐ ☐ 4. I know who my competitors are and their relative strengths and weaknesses.

☐ ☐ 5. I feel that I have done enough market research.

Strategic Market Planning

New or unexpected events in the marketplace will affect your business. It is recommended that your business have a back up plan when market dynamics change. Some of the changes may include the following:

- One of your competitors is either introducing a new product into the marketplace or making major improvements to an existing product or service
- You're introducing a new product or service into the marketplace
- Your sales and your market share are decreasing
- You've identified a new market, or new market niche, for your product or service
- Customer complaints have been increasing
- Economic recession and layoffs in your market area have made your product or service too expensive
- A change in government regulations is affecting your industry

Planning is designed to produce results: to help you outperform your competitors, to improve your market position, and to increase sales and profits for your company.

The Four P's: Product, Place, Price, Promotion

Product

The product or service you sell is the core of your business and the key to its success. It is critical that you develop your product or service in order to meet the needs of your target market. Regularly compare your product or services to that of your competitors. Take note of customer feedback (both compliments and complaints). Always be looking for ways to improve your product or service in areas such as design, quality, packaging, and presentation.

Product Life Cycle

Products, not unlike people, have life cycles. They move from birth through a period of growth to maturity, and then level off somewhat before declining towards death. Be aware of the stage of a product in its life cycle before proceeding with production. Some products have a short life cycle (pet rocks, hoola hoops), while others enjoy a more prolonged life.

Five stages:

1. Introduction:

At the launching of your product, the challenge is general lack of awareness of the product and its features. Promotional emphasis will be on getting people to try the product. Sales will rise slowly, and costs will be high.

2. Growth:

The product gains acceptance, sales rise rapidly, and a flood of competitors enter the market. Prices probably fall, which translates into even higher sales.

3. Maturity:

Sales growth begins to decline, and competitors modify their products, stressing design and style. Model changes become more frequent. Smaller firms fall by the wayside at this stage, overcome by larger, higher volume dealers who through economies of scale can offer lower prices and better service.

4. Saturation:

Sales level off as most people who want the product have it. Selling costs increase.

5. Obsolescence:

Sales drop off, never to regain their former levels. Prices are cut and advertising is reduced considerably. Many firms drop the product.

You can use this information to adjust your marketing mix, matching it to the stage of the product's life cycle. This will help you to compete effectively and maximize profits. You can also differentiate your product through design changes that extend its life cycle or even start it on a new cycle.

Company Image and Customer Relations

All of your marketing methods and strategies are designed to present a positive image and to improve your relationship with your customers. In all your customer relations, remember that a positive image takes time to build, but a negative image or perception can develop quickly and be hard to overcome.

Your company image is based on your customers' perceptions about the following:

- Price and quality of your product or service
- Place (location), appearance (including signs), and convenience (including parking) of your store or office
- Product packaging and presentation
- Promotional and advertising campaigns
- Appearance of your business cards, stationery, etc.
- Personal, telephone, or written contact with you and your employees. This includes your appearance and attitude
- Customer service, including delivery, warranties, follow-up service, and convenient repair service

Promotions and Advertising

Promotions are a key part of your company's marketing program. Promotions, including advertising, are your way of communicating your message directly to your target market.

How and where to promote your company and its product or service are decisions that will influence your budget, your work schedule, your company's image, your company's success in the marketplace, and, ultimately, its very survival.

Some businesses hire professional marketers or advertising agents to coordinate and plan promotional and advertising activities. Advertising representatives from radio, newspapers, and other media might also be of assistance.

Choosing Promotional Tools

Once you know what your promotional and marketing goals are and how much money you have to spend, you must choose from several promotional tools, or channels, to help you achieve your goals. The combination of promotional channels you decide to use is sometimes referred to as your company's promotional mix and can include the following:

Advertising

The purpose of paid advertising is to communicate the following information to potential customers (your target market):

- Benefits of your product or service
- Location where, and at what price, they can buy your product or service
- Positive image of your company

Media advertising:
Depending on your goals and your budget, you can choose from a wide variety of media, including the internet, newspapers, magazines, local and national television, radio, Yellow Pages, billboards, and your local community cable channel. These latter methods are usually costlier.

Direct advertising:
Bypasses the media and communicates directly with potential customers. Direct advertising includes e-mails, social media (Facebook, Twitter, foursquare), letters, newsletters, postcards, brochures, and flyers.

Four Opportunities to Kick Start Your Cash Flow

Opportunity #1: A Sale

The "sales" is the logical first choice for businesses that need to raise extra cash or to rid of old stock. However, where most businesses "drop the ball" they advertise something like: **"Winter Sale" or "30% OFF all stock"**.

You need a headline that is more compelling and benefits orientated. Here are some examples:

- "At MYERS you'll pay $2,500 for a XYZ suit…but if you hurry, you can own the same suit, plus a $200 pair of handmade Italian shoes, a belt, a pure silk tie and a $150 designer shirt of your choice for the same amount…$2,500"
- "For the next 7 days, YOU can buy WIDGETS for 1/3 less than anywhere else in town"
- "We'll give YOU the same garage and $750 worth of extras at 20% less than the 2 largest garage companies are charging"
- "A $1,500 lounge suite for only $820"

Opportunity #2: Lock in Sales in Advance

This method applies if your customers use your business repetitively, but may also attract new ones. Here are some examples:

- Offer discounts if they pay annually or semi-annually
- Offer additional products or services if they prepay

- Offer volume discounts (i.e. 20 items for the price of 15)
- Offer coupons that reserves a special price for a specified period of time (i.e. 3 months)

Opportunity #3: Use Other People's Customers

Many business people feel they are in business alone; however, there are other businesses that serve your customers in a non-competitive way. In other words, form relationships with other businesses selling products/services that complement yours (and in turn theirs). Some examples are:

- A butcher may form a relationship with a bakery, convenience store, and/or a kitchen and appliance store
- A beauty salon may team up with a massage therapist, a women's shoe store, a fashion store, and/or a lingerie store
- A donut shop may team up with a fast food restaurant
- A mechanic may form a relationship with a tire or parts shop, a car wash, or a car dealership

Ingenuity is required. The key is to this opportunity is to offer incentives for the other business' customers to come to you; this incentive should also benefit the other business.

Opportunity #4: Sell an Event or Information

Business people often have knowledge that the public values and would pay to learn about. A seminar is a great way to raise cash quickly and to educate customers—educate them to the benefits of using your service or product. Linking with other businesses for a seminar is also a good idea.

Budgeting and Keeping Track

Preparing Your Market Budget

Prepare your marketing budget as carefully as you prepare your overall company budget. Make sure you consider the size and type of your business, company resources and financial situation, marketing goals, and target markets. Small companies usually base their marketing budget on one, or a combination, of the following approaches.

Company Goals

Decide on an action plan to meet your marketing goals, and then decide how much money you will need to make it happen. This approach emphasizes the importance of thinking through your marketing plan. It recognizes that marketing expenditures are a necessary company investment that will help secure the company's future success. This approach can be inexact, however, because many of the expenses must be estimated.

Percentage of Sales

Base your marketing budget on a percentage of current or projected sales. In retailing, for example, most stores spend between 1% and 7% of total sales on advertising. While this method is simple, it is also inflexible, and not based on your company's actual marketing needs.

Industry Averages

Base your marketing budget on what the industry is spending as a whole or on what your specific competitors are spending. Industry averages can be obtained from market research, trade associations, etc., and are usually expressed as a percentage of total sales. This is a defensible budgeting approach because it recognizes and responds to what your competition is doing. It does not consider your company's marketing goals or special requirements. It is also based on historical information and is not a reliable guide for reaching new markets.

Forecasting

To make sure that your marketing budget makes economic sense, you must take into account projected sales, costs, and profits. These figures make up part of your financial statement and should be estimated and analyzed carefully. If your cash flow forecasts show that you may not have enough funds to meet all your marketing goals, list your goals in order of priority and then divide the marketing budget accordingly.

Tracking and Evaluation Your Marketing Decisions

Tracking and evaluating your company's marketing plans and actions should be done at least once a year, as well as after any specific marketing initiatives you undertake.

This will help you:

- Identify problem areas
- Keep up with marketplace changes
- Spot weaknesses in your marketing program
- Spend marketing dollars more effectively
- Recognize ineffective or outdated strategies
- Amend unrealistic or conflicting goals
- Anticipate future opportunities and problems

Monitoring and evaluating your marketing program involves four stages:

Stage 1: Find out what happened to your sales during and after your sales promotions and advertising.

Stage 2: Compare actual results to your marketing goals and budget. Did your advertising and promotional activities produce the desired results?

Stage 3: Find out what worked and didn't work. Determine what specific factors in your marketing program accounted for or contributed to which marketing results.

Stage 4: Make changes to improve results. Make the necessary adjustments to your overall marketing plan and your promotional and advertising strategies. Treat your promotions effort as a "work in progress", and be prepared to continuously update it to reflect results and new information.

Marketing Plan Workbook

Your Company:

1. What is the key idea or concept behind your business?
2. What products or services do (or will) you sell?
3. What are your company's strengths and weaknesses?
4. What are your company's major goals?

Your Customers:

1. What is your target market? Who are your primary customers and what are they like?
2. Why do (or will) customers buy your product or service?
3. How can you encourage them to buy more of your product or service?
4. What is your company's current or projected market share?
5. What warranties, guarantees, and special services do you provide for your customers?

Your Competition:

1. Who are your major competitors?
2. What are their major strengths and weaknesses?
3. Why do consumers buy their product or service?
4. Is their share of the market increasing or decreasing?

Location:

1. Why did you choose your present business location?
2. Does your location meet the needs of your customers, suppliers, and staff?
3. Does your location suit your company image?

Price:

1. How do you set product or service prices?
2. How do these prices compare with your competitors?

Promotion:

1. How do (or will) you sell your product or service?
2. What is your primary message to your customers and potential customers?
3. What image do you want customers and potential customers to have of your business?
4. What media do (or will) you use to advertise? Why?
5. What direct mail advertising methods do (or will) you use? Why?
6. What sales promotions and publicity methods do (or will) you use? Why?
7. How do (or will) you train and encourage your sales staff?
8. What is your promotional and advertising budget, and how was it determined?
9. What methods do you use to monitor and evaluate your marketing program.