



Marketing

Introduction

Arguably, the most important function of any business is marketing – Peter Drucker says that the two most important functions are innovation and marketing. But innovation is about giving customers what they need so is really part of marketing. Providing a service is relatively straightforward. The hard part is ensuring that your potential customers are aware that you exist – and that is the purpose of your marketing plan.

The aim of this fact sheet is to introduce some key aspects of marketing, including market segmentation, market positioning and the 4Ps.

Marketing is a business discipline. The UK's Institute of Marketing defines marketing as "the management process responsible for identifying, anticipating and satisfying customer requirements profitably". In simpler words, marketing is about finding and satisfying customers - identifying the need for a product or service and then providing it at the right time, in the right place and at the right price.

Marketing covers all aspects of your business, from defining your product or service to the identification of market opportunities and filling those opportunities at a price that covers your costs and generates a profit.

This fact sheet provides a basic introduction to marketing and is specifically intended to support business membership organisations that are beginning to think about how they market themselves as a membership organisation or, perhaps, want to introduce a service for which they intend to charge a fee.

Segmenting the market

Too many businesses start from the product or service they are providing; that is, they are product-led. Whilst sometimes that can be effective, in most cases businesses need to be market-led: they should be looking at, and planning, everything from the viewpoint of the customer, identifying the needs customers are seeking to fulfil when they buy a particular product or service. To put it another way, customers buy 'benefits', described in more detail below.

The ideal starting point is to define quite precisely the market that you are targeting. A small off-licence may only service the needs of a few dozen streets. A specialist restaurant may have to call on a much larger catchment area to be viable. In what market is, say, Parker Pens? They see themselves in the gift business - so they compete against the likes of Ronson lighters, not BiC biro.

People often flounder in initial market research by describing their markets too broadly. For example, saying that they are in the motor industry when they really mean second-hand car sales in Mombasa.

It may help you to think about your market by using a technique called *market segmentation*. Start with the big picture and break it into logical segments that differ, for example, in buying habits, buying ability, location, etc.

You do not have to sell to more than one segment. But segmenting the market can help you to define your customers more accurately.

Breaking the market into segments helps you to understand the composition of the market, interpret and present statistical information and target the customers most

likely to buy your products or services. The information you collect can be used in designing effective advertising, deciding on a suitable pricing structure, providing the right products, knowing the best location, and so on. It will help you to make informed decisions.

Careful segmentation will help you define your market accurately. But segmentation alone is not enough for a business to be successful. Businesses must offer a top quality service; they must differentiate themselves from their competitors; and, most importantly, they must closely match their product or service to the specific needs of their customers.

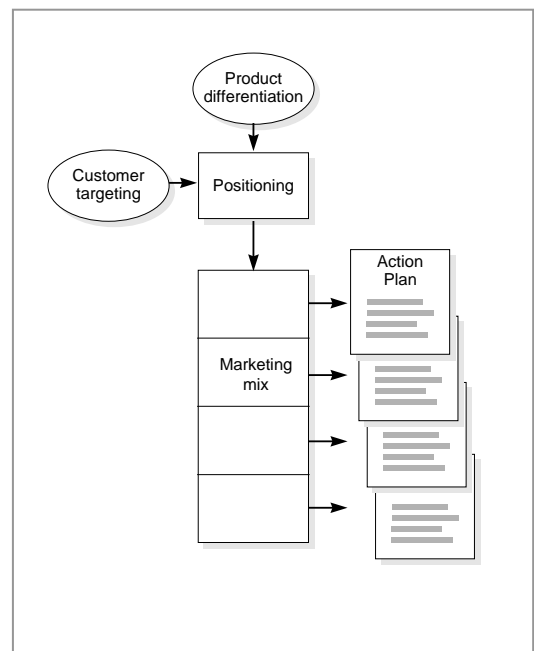
The marketing plan

There are three stages in the process of preparing a marketing plan. The first involves reviewing your overall strategy to confirm the definition of your target customer and deciding on the positioning strategy you want to adopt, that is, how you will position your services compared to the way in which your competitors, if you have any, position themselves.

The next step is to determine the impact of your targeting and positioning decisions on your 'marketing mix'. The marketing mix deals with such issues as product specification and development, pricing policies, delivery systems and promotional activity, and is sometimes referred to as 'the 4Ps'. By this point you will be making decisions that indicate the need for specific action to be taken which, in turn, have implications for the operational resources you will need.

The last step is to review these needs and prepare an action plan that states, using 'action oriented' statements, what will be done and when – preferably with allocated responsibilities for each task.

When you have formulated your marketing plan it can be helpful to produce a written document. Writing the plan and including justification for intentions will help crystallise your thinking and ensure that you have covered all the important points.



The figure illustrates how the core elements of a marketing plan fit together. They are:

- Description of the services you intend to sell – what they do, how they work, the customer benefits they offer and how they differ from those of the competition.
- Definition of your target customers including an explanation of why you believe they will buy the services – the benefits they seek and the reason why they are likely to choose your services in preference to those of your competitors.
- A section dealing with each element of the marketing mix stating what you intend to do and why.
- An assessment of the resource implications of your plan – additional people, equipment, etc – noting why you need them and the costs involved.
- Summary action plan timetable.

Customer targeting and market positioning

The outcome of your marketing plan depends on your approach to customer targeting and your positioning in the marketplace.

'Positioning' is a term used to describe how you want customers to think of your service relative to those of competitors. Take as an example the difference between mid-range cars sold by Ford and BMW. In most respects both models of car are similar. Their function is identical – they are both designed to be a mode of personal transport. What makes them different is the pricing structure, styling, and perhaps most importantly, their respective perceived images. Ford want people to think of their mid-range products as affordable cars for the mass of average people, whereas BMW want people to think of their cars as the 'sensible' choice for discerning buyers amongst those who are 'successful'. What each company has done is choose a positioning for the product defined by the target customer group and the means by which the product is differentiated from others.

Once you have a feel for your target market and what it is that sets your product or service apart, you can consider which one of what Michael Porter of the Harvard Business School calls 'generic strategies' you intend to adopt.

Businesses face the choice of going for a high volume mass market or a specific market segment or niche. In terms of product strategy, there are two primary choices – cost/price advantage or differentiation.

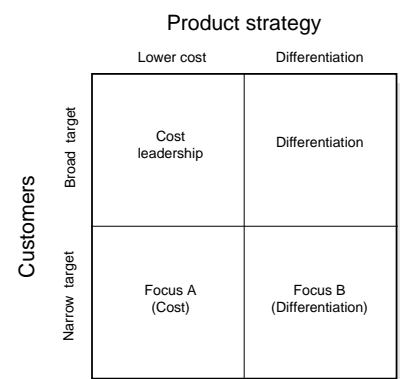
The combination of these choices leads to four possible positioning strategies, two of which (cost focus and differentiation focus) are very similar because both rely on inherent differences in the target sector.¹

In a cost leadership approach a firm aims for high volumes competing on price. The aim is to attain market leadership by undercutting all competitors – albeit marginally. That is not to suggest that the product is inferior. Customers will still only buy the product if it is of acceptable quality – either close to or as good as those of its competitors.

Success with this strategy depends on achieving, and maintaining, a significant cost advantage. The strategy of cost leadership is one that is commonly adopted, though rarely fully achieved. After all, it is difficult to make a reasonable profit unless you have a high volume of sales.

A strategy of differentiation is based on identifying a unique benefit that is highly valued by a substantial proportion of the target market. In this case, businesses differentiate themselves by offering a product which is different, usually by providing greater benefit, and are therefore able to set their prices higher.

Some businesses choose to focus on a narrow niche. The difference between this and a mainstream strategy is that it relies on an inherent difference in customers' requirements in the selected segment compared to the market overall. An example would be the TV market where, outside the volume sectors, some manufacturers have opted to serve a smaller segment such as the portable sector, or a specialist niche such as the big-screen units used in conference rooms. Here the customer requirements are quite different and cannot be met by minor adaptations of mainstream products. Businesses that aim for a focused approach, however, are still likely to meet some competition and so need to decide whether, even within narrow target segments, to pursue cost leadership or differentiation.



¹ Michael Porter, "Competitive Strategy", Free Press, 1980.

Choosing your positioning

Many markets can have different companies each adopting one of the strategies and successfully co-existing. It is very rare for more than one or two businesses to succeed with a cost leadership strategy and, unless a market is particularly large, the same often applies for the high volume differentiation strategy. However, many markets contain small specialist sectors that offer good opportunities to adopt a strategy of focus. This is one of the reasons why, in many cases though by no means all, the focus strategy proves to be the most appropriate for a smaller firm competing in markets where the high volume ground is already dominated by large corporate businesses.

When choosing which of the generic strategies is most appropriate you will need to consider existing competitors: are they many or few? What strategies have they already adopted (if any)? Do you have a notable advantage over existing players? You will also need to apply the results of your research into customer attitudes and behaviour. Are there notable differences that have created obvious niches? Are there indications that it might be possible to create a new niche? Are there any identifiable requirements that are not currently being met which can thus be used as differentiation factors? Of course, markets are dynamic and subject to constant change. As you deliberate on the positioning you feel will be most appropriate, remember to look at the market trends as well as the current situation.

Marketing objectives

Once you are clear about your target market and about the position you propose to adopt you can begin to define some marketing objectives. The first of these might be the purpose of the business: be as specific as possible regarding the business area in which you will operate, for example, product type, customer groups, market needs, etc, for example:

- To provide a range of support services for businesses working in horticulture in Kenya;
- To provide a quality assessment service that will demonstrate that members are meeting agreed standards and then to market the produce from those quality assured members.

This purpose can then be translated into marketing objectives and goals, which should:

- Be quantifiable – for example:
 - to achieve gross income in the first year of \$100,000;
 - to achieve net profit of 10% of gross sales by year three.
- Be realistic but challenging – never set objectives that are a product of wishful thinking; and,
- Be set in some sort of order of importance – if it is most important to achieve return on sales targets, then subsidiary objectives could be set to help achieve this, for example, to reduce production costs by 10%.

Typical objectives are sales, profitability, sales growth, diversification and market share improvement.

Marketing mix

The marketing mix describes all those aspects of business which happen after production and which combine to market that product. These include product strategy and market development, packaging design and merchandising, pricing, sales promotion, advertising public relations and distribution. Often these are grouped into what are known as the 4Ps - product (used to mean both products and services), price, place and promotion. These four elements are the variables

that you can adjust to make you different from your competitors, and thus more attractive to your target customers.

Product

Getting the product or service right is all about making sure it satisfies customers' needs or wants and can be produced and delivered at a profit. There are an enormous number of ways you can make your product different and more appealing. The factors you could consider include: does it look right, feel right and how well does it do the job? What special features does it have and how do those translate into benefits that customers need and/or want? Is it attractive enough, both visually and functionally, to appeal to sufficient customers (you'll want to sell in reasonable volumes even if you have chosen to adopt a focus strategy) in preference to the offerings from competitors? Is it appropriately and attractively packaged? How reliable is it? Does it meet the expectation of the target market in terms of perceived quality and value for money?

► Features and benefits

Features are what a product has or is, eg size, colour, attachments, etc. Benefits are what the product does for the customer. The table compares features and benefits for a motor car.

Feature	Benefit
Leather seats	Comfort
Anti-lock brakes	Safety
Central locking	Security
1400cc lean burn engine	Economy
Catalytic converter	Environmentally friendly
Convertible	Style

It is important to remember that the seller pays for the features and that the customer buys the benefits. So successful marketing of a product involves communicating both features and benefits. Importantly, those benefits must be worth more to the customer than the features cost you to deliver.

► Added value

Even if you sell a tangible product, the associated service is a very important part of what customers buy. Service factors to think about include: Is there appropriate back-up? Are the instructions clear? Are you able to offer the sort of delivery, lead-time and installation service the customer requires? Are the payment terms appropriate to customers' needs and wants?

How will you make your business different? There has to be something unique either about you or your product that makes you stand out from your competitors.

► Spotting trends

Markets are dynamic – they do not stand still and customer requirements and expectations change over time. Consequently, you also need to think about trends and their potential effect on future development of your product or service: what are the future trends? What is the potential impact on product or service specification? What needs will customers have in the future? What benefits will they be seeking in tomorrow's products?

You need to be totally clear about what you are hoping to sell. If you cannot describe it easily, then you will have difficulty selling it. Equally, you have to be clear about it before you do your market research.

Once you know what you are selling and to whom, you can match the features of your product (or service) to the benefits that your customers will receive (or perceive that they will receive) when they purchase.

Price

Good pricing policy relies on knowing what customers will be prepared to pay rather than simply working out the cost and adding an arbitrarily chosen mark-up.

You have to be able to get an indication of typical market pricing by comparing your products with equivalent competitive products as part of your research and this will help you decide where to pitch your prices. The implication of choosing a cost leadership or cost focus strategy is that you should be looking to sell marginally cheaper than any equivalent offering from existing competitors. You may feel it necessary to start even lower to encourage trial but we would recommend you should avoid this if at all possible. It is much easier to reduce prices when it is clearly necessary than push them up. If you are using differentiation positioning then you need to assess the value customers are likely to attach to the additional benefits they gain from choosing your product or service.

Fixing a price is a juggling act between strategy, costing and cash flow. It is important not to charge too little at the outset, otherwise the income may not cover all the costs and it may be difficult to raise prices later without deterring customers.

It is also important to distinguish between cost and price. Price should relate back to the market research. Businesses need to charge a price that will cover all their costs and also generate a reasonable profit. The price should be the maximum amount that people will pay for the product or service. Businesses should continually seek to reduce costs and improve productivity. Keeping the price high and costs low will, therefore, maximise profit.

Place

Place is used as a synonym for distribution. The question of distribution is not just about the method of delivering the product to the customers. It is important to recognise that customers may tend to expect to go to, or look, in certain places when they want to buy products or services of your type. Therefore sales success also depends on your products or services being available in the right place and/or sold through the right distribution channels.

When setting your distribution strategy, key factors to consider include: What distribution channels already exist in your chosen market? Are there signs of any new approaches to distribution of your type of product or service emerging? Do buyers in the next stage of the supply chain have a preference to buy from a local distribution point? Do buyers of your products or services tend to purchase from distributors, wholesalers, etc, or prefer to deal direct? If buyers of your products and services are disposed to buying the product only from premises that have the right feel, appearance or specific facilities, then these could become important factors in choosing your distribution outlets. Are the locations of retail/service outlets or distribution points appropriate to customers' demands for quick response at acceptable cost?

Promotion

There is an old saying along the lines of 'the man who makes a better mousetrap will have the world beating a path to his door.' This would only be true if he had informed people about his new invention. That is the primary role of the promotion element in the marketing mix. It is about effectively communicating the necessary information to your prospective customers so that they are encouraged to make a purchase decision in your favour. In this context 'promotion' is used to mean all types of informative communication with customers including, advertising, exhibitions, telesales, face-to-face selling, sponsorship, etc.

What is your message and what is the medium? Lord Lever, of Unilever fame, is reported as having said that half the money he spent on advertising was wasted,

but no-one could tell him which half. A key element in your marketing strategy has to be what to tell whom and how to tell them it.

You will want to promote your product or service to two groups of people: those who are already customers, to encourage repeat business and those who are not yet customers, though you may need to promote yourself to each in different ways.

For promotion to be effective, you need to know as much as possible about your customers' typical purchase decision making process. How do they go about making purchase decisions? What stages do they go through? At what times? Who or what can influence their deliberations? Based on that information, you can determine what you should say, how to say it, when to say it, and which method(s) of delivering the message to them would be most cost effective.

In much the same way as products and services are designed to meet customer requirements, the method and content of your promotional activity needs to be focused on providing the important information they want. When it comes to making purchase decisions, they want answers to questions like: What will it do for me? Why should I choose this over competing products/services? How do I know I can trust your promises? What do I have to do and/or, where do I go to get it?

What is it about your product or service that is unique? What is it that differentiates your product from those of your competitors? What will encourage customers to buy from you rather than from your competitors? In short, you need to identify your unique selling point (USP) and communicate it effectively to your customers.

Promotional presentation also involves the question of style. It is through choice of style that promotional activity can also be used to influence perceptions of the product or service - the brand image. If you are trying to create a particular image for your product or service, then the style of your promotional activity should reflect that style as closely as possible.

When to promote depends what you are trying to achieve and at which stage the customers are in the purchase decision making process (particularly if it is a lengthy process). For most businesses effective use of promotional and selling activity requires it to be continual from the time the customer recognises the need to make a purchase to the point at which the decision is taken. It becomes more of a question of what should be done at a particular point in time dependent on the stage that the customer has reached.

Whatever the technique, you should remember the advice of David Ogilvy, one of the world's top advertising executives: "Advertising which promises no benefit to the customer does not sell – yet the majority of campaigns contain no promise whatsoever."