

Marketing Basics

Many people consider marketing to be promotion, advertising and all the selling techniques used to get someone to buy a product. However marketing is much more.

A marketing approach to business begins with the customers' needs and involves designing the entire enterprise around fulfilling those needs. Decisions about the product's design, sales outlets, the price, the service level and where to advertise are made with a solid understanding of who the customer is and what they are looking for.

Marketing Primer

Who is Your Customer?

In order to tailor your marketing and advertising strategies to appeal to the tastes and interests of your market, you must first identify your customer. In order to do this, you it is necessary to conduct thorough research of the consumer marketplace. Keep in mind, the more information you have about your target market, the better able you will be to develop a successful marketing plan.

A market profile typically uses primary and secondary sources to answer key questions about a potential market. A profile is a picture or an outline. Information that makes up the social profiles of the people in your target market is called demographic information, and includes:

- age, usually given in a range (20-35 years)
- sex
- marriage/partner status
- location of household
- family size and description
- income, especially disposable income (money available to spend)
- education level, usually to last level completed
- occupation
- interests, purchasing profile (what are consumers known to want?)
- cultural, ethnic, racial background

A clothing manufacturer may consider a number of possible target markets--toddlers, athletes, grandparents (for grandchildren), teenagers, and tourists. A general profile of each of these possible markets will reveal which ones are more realistic, pose less risk, and which are more likely to show a profit. A test market survey of the most likely market groups, or those who buy for them, such as parents for babies and toddlers, can help you separate real target markets from unlikely possibilities.

The Right Product

What are your customer's needs? What do they expect to get when they buy your product or use your service? The right product is the one that best fits their requirements.

People who eat in restaurants want more than a good meal. They might expect quick service, a reasonable price, a vegetarian menu, a children's menu, entertainment, a drive through

window, or to be identified with a trendy crowd. It becomes a difficult and probably an unprofitable venture trying to satisfy everyone's needs.

If you have identified your customer and listed their expectations, you can design your product or service around their requirements.

The more you fulfil your customer's expectations, the better the quality of your product. Think of your product or service as more than just what the customers pays for. When you are planning your business consider how the whole transaction meets the customer's needs.

Positioning your Business

Positioning refers to the image customers have of your business. The goal is to create a business image that enables you to position your business in such a way that, in essence, it acts as a natural magnet for your intended customers. A number of factors that customers often look for include: price (i.e. cheapest price, fair price, price for quality, etc.)

- assortment
- parking
- service
- sales personnel
- quality
- fashion
- convenience
- location
- atmosphere
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Your overall position should emphasize those areas that your customers value most, and those which make you different from your competition.

Pricing Techniques

The importance of pricing can not be underestimated as incorrect pricing can often result in the failure of a business. New businesses often make the mistake of either charging too little or too much for their product or service. So to help you avoid making one of these mistakes, the following section will outline some of the guiding principles of price determination.

Price is a key part of marketing. Setting prices is called pricing.

Setting Prices

Prices for products and services can be set by pricing to the market, pricing to your costs, and rule of thumb pricing. New business people with little experience may set an initial price based on the market, and then as experience grows, re-set prices according to costs. These two aspects of price--what is acceptable to the market, and what costs are--must both be considered. In addition, effective pricing depends on the business goals of your company: do you want to maximize profits or are you aiming for high growth in sales? The choices that a business ultimately makes about its markets and sales make a big difference in pricing.

For example, a business may make an early choice about where to position themselves in the market--the "good value," low end of the market, or the "quality conscious," upscale market. In pricing, as in everything else in business, the customer is the reference point.

Pricing to the Market

Compare prices with your competitors for similar products and services. Set the price range that customers will expect. You can use that market price range--what is acceptable to the market--as a guide to set your prices. Businesses or people to whom you sell may also price to the market by telling you what they will pay for your product or service. As you keep records of actual costs, the cost approach to pricing will help you make sure all your costs are covered, which may not be true in a market approach to pricing.

NOTE: Be careful about under-pricing in order to compete or make sales. Use competitor's prices to establish the price range for similar products or services but don't under-price; if your true costs are higher, your final prices will have to be higher.

Cost Approach to Pricing

Price must cover all costs of goods/services sold, including production costs of supplies, materials, fixed overhead, and time/labour, plus a profit. Costs should include costs of production, labour and non-labour, including overhead or fixed costs as well as supplies and materials.

Use this simple formula in setting a price (per unit):

Total Costs of Production Per Unit + Desired Dollar Profit Per Unit

Businesses can set different profit rates, for example 15% profit on supplies and materials, 20% profit on labour/time, and 25% profit on overhead. These more complicated approaches to pricing usually emerge in response to the special needs of a particular business.

If your research reveals that similar products or services are available on the market at a cost much lower than what you could offer, you may have to either adjust your profit margin, the return you expect, or decide to provide enough specialized service or selection that the market will pay the extra. Alternatively, you may be forced to conclude that you cannot afford to make this item or provide this service and look for something else to do.

NOTE: Remember to cost materials at the level it costs to replace them- NOT at original prices; include salaries as a business expense; include interest in your business cost calculations -- interest that could have been accrued had the money used in the company been invested elsewhere (i.e. a bank); make allowances for future refunds, servicing, bad debts, amortization of capital costs of equipment or machinery.

"Rules of Thumb" in Setting Prices

Some types of businesses charge prices according to certain "rules of thumb": For example: price is always twice labour plus materials, or twice materials plus labour depending on which is higher; price is always materials and labour plus 20% for fixed costs, plus 25% for profits. Calculating actual costs is the only proven way to make sure your prices cover your costs. Labour/time charges are to be covered partly in the costs of production and partly as a salary in the fixed/operating or overhead costs.

In summary, key points to consider in setting prices are:

- marketing strategy and your immediate goals;
- competitors' prices, and the market;
- market demand for the product and consumer buying trends;
- need to cover costs and provide an adequate profit.
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Researching Your Market

Research will help you with a wide variety of business decisions. You will likely have to make decisions involving:

- A good location
- Sales projections
- Your product line
- Your pricing strategy
- Where you advertise
- Offering credit
- How much capital you require
- How much floor space you need
- How much inventory you order
- How much equipment and supplies you require
- How many employees you hire Etc.
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Business information is required to make sound decisions and to prepare a credible business plan and cash flow forecast.

Where to find information

In most cases business information can be gathered at no charge. The following are sources of information on your industry.

Competitors

Neighboring businesses

Sales representatives

Trade suppliers

Business friends and associates

Chamber of Commerce/Board of Trade

City or Municipal Hall

Local Government Agent's office

Downtown business associations

Trade associations

Shopping centre developers

Newspapers, radio and T.V.

Various directories

Bookstores

Trade publications

Similar businesses in another city

University or community college

business schools

Advertising agencies

Post Office

Business section of library

Phone book, Yellow Pages

Observe Your Competition

Get out on the street and study your competitors. Visit their stores or the locations where their products are offered. Analyze the location, customer volumes, traffic patterns, hours of operation, busy periods, prices, quality of their goods and services, product lines carried, promotional techniques, positioning, product catalogues and other handouts. If feasible, talk to customers and sales staff.

Consider how well your competition satisfies the needs of potential customers in your trading area. Determine how you fit in to this picture and what niche you plan to fill. Will you offer a better location, convenience, a better price, later hours, better quality, better service?

Talk to your Suppliers

Conversation with your suppliers can tell you a great deal about how your industry works and what trends are taking place in your market. They may be able to tell you valuable information about pricing techniques and mark ups, about the fastest moving lines and why they are selling, and why some competitors are successful. (They can also provide you with information about credit terms.)

Talk to your Customers

Conversation with your customers or potential customers can give you insight into what their needs are. They can indicate what they look for in your industry, what they think of your competition, what price they might pay and what level of service they like.

Surveys and Focus Groups

Surveys and Focus Groups represent more formal ways of getting insight from your customers. If you have a specific information requirement and a definable audience, it is likely that you can undertake a useful survey. Designing a non biased questionnaire requires attention to detail. There are many good books available on questionnaire design and initiating a survey. If you are depending on the survey to assist with a costly decision, you may want to consider hiring a professional marketing research firm.

A focus group involves getting feedback from a specially picked group using controlled interview techniques. The process usually allows the participants to provide their opinions, come up with new ideas and brainstorm. This is valuable for generating new concepts, getting feedback on proposed advertising or gaining insight into attitudes and opinions about a new product. Focus groups require a skilled interviewer and hand picked participants. Professional firms can be hired to tackle the project for you.

Hire Students to do a Survey

Community colleges and university's have marketing management programs where students can be hired on a confidential consulting basis as part of their curriculum. The students do not have the experience of professional firms, but will often do a reasonable job at little cost. You will probably have to cover expenses incurred by the students and course objectives and timing may compromise your requirements.