

Marketing Planning, Strategic Planning and the Marketing Process, Sales Forecasting

Key Terms: company mission (mission statement), objectives, strategies, tactics, SWOT analysis, marketing plan, market penetration, product development, market development, diversification, vertical integration, horizontal integration, business portfolio, portfolio analysis, stars, dogs, question marks, cash cows, sales forecasting, jury of executive opinion, composite of salesforce opinion, trend extrapolation, time series, multiple regression, and leading indicators.

A company has to have an overall **company mission** which defines what the company is all about and what makes it unique. For example, is the firm concerned with selling consumer goods (B2C), weapons, heavy machinery (B2B), *etc.*? Remember it is important not to suffer from marketing myopia, and this is why a business must be defined in terms of a need that is being satisfied and not an existing product. The **mission statement** will also define the culture, values, and philosophy of the firm. The mission statement provides direction for a firm so that employees, customers, suppliers, investors, and other stakeholders know what the organization is about and where it is headed. If done well, it also serves to motivate and inspire employees. A good mission statement considers the needs of all stakeholders and makes it clear that the firm is not only concerned about profit. A large number of papers and books have been written about corporate social responsibility (CSR). More will be said about CSR in later chapters.

Companies then must have objectives that tell the company where it should be heading, *i.e.*, give it further direction. **Objectives** are often in terms of return on investment (ROI), market share, and/or profit. The next step is to have a strategy.

As you know, developing a **marketing strategy** involves two steps: (1) selecting a target market and (2) developing the best marketing mix (the 4 P's) to satisfy this target. Finally, the **tactics** are much more specific and provide more precise details about such matters as, say: where should I advertise? When should I run the ads? How will I get distribution in certain types of stores? *etc.* In effect, the tactics describe how to achieve the strategies. Resources that are required to implement the tactics are budgeted.

Companies should analyze and track what their competitors are doing. It is important to know the strengths, weaknesses, objectives, and strategies of the competition.

The **marketing plan** is an important document used by companies for planning. It is a **road map** and surveys the business environment, describes problems, threats and opportunities in the industry, contains a marketing strategy, and has financial projections/budgets. Do not confuse a marketing plan with a **business plan**. A marketing plan is concerned more with strategy whereas a business plan is more concerned with financial information. The primary purpose of a business plan is to raise money from venture capitalists or bankers; the primary purpose of a marketing plan is to

provide direction for a company. The marketing plan is an integral part of the business plan.

Contents of the Marketing Plan

I. Executive Summary and Table of Contents

The marketing plan begins with a brief synopsis of the key points and major recommendations. The Table of Contents follows the executive summary.

II. Environmental Analysis (also known as Situation Analysis)

Before starting this section, the organization might first discuss its mission statement. Section II provides information about the firm's current situation with regard to the current marketing environment. It is sometimes referred to as a situation analysis. The **marketing environment** must be discussed. This section will look at external environmental factors such as the market, competition, marketing channels, economy, political climate, technology, legal and political climates, and sociocultural factors. This section will also examine internal environmental factors such as costs, profits, human resources, financial resources, and the age of plant and equipment. The **target markets** also have to be studied. Have their needs changed? Is the company doing a good job of satisfying the needs of its customers? Finally, the organization has to ascertain whether its marketing objectives are still reasonable given the changing environment. The information in section II is used to help the organization with the SWOT analysis

III. SWOT Analysis

SWOT has become a buzzword in marketing today: Companies should know their **Strengths**, **Weaknesses**, **Opportunities**, and **Threats**. It is the foundation of the entire marketing plan. A company has to understand its internal strengths and weaknesses and also be cognizant of external opportunities and threats. To do a SWOT analysis correctly, you must know about your competition and the industry. After the SWOT analysis is complete, a company has to build on its strengths, do everything possible to eliminate or correct weaknesses, take advantage of opportunities, and do what it takes to minimize or avoid threats.

IV. Marketing Objectives

Based on the SWOT analysis, The organization's major objectives are stated. This makes it clear to all what the organization is trying to accomplish through its marketing plan. Objectives are in terms of such factors as market share, profitability, and/or sales volume. Other factors to be considered include innovation (e.g., introduce five new products), image, distribution, etc.

V. Marketing Strategies

A marketing strategy, as you know, has two key components: a target market and a marketing mix to satisfy the target market. A good marketing strategy enables a firm to achieve its objectives. A firm will succeed if it can use its strategy to achieve an advantage over the competition. A successful product offers either a quality advantage

and/or price advantage over competing brands. How the product or service will be positioned is also discussed in this section. Positioning will be discussed in a later chapter.

VI. Marketing Implementation/Action Program

This section describes the actual marketing programs that will be undertaken in order to implement the marketing strategy. Some issues that must be discussed include what specific actions must be taken? Who will do it? When is it going to be done? How much will it cost?

VII. Financial Projections/Evaluation and Control

Financial projections are required so that the organization can determine whether the marketing plan is actually working. The detailed financial projections are done on a monthly or quarterly basis. These projections are usually in terms of sales volume, profits, and/or market share. Costs must also be projected since total profit = total revenue - total cost. If the marketing plan is not working, it is very important for the organization to be able to pinpoint the cause as soon as possible and have a contingency plan.

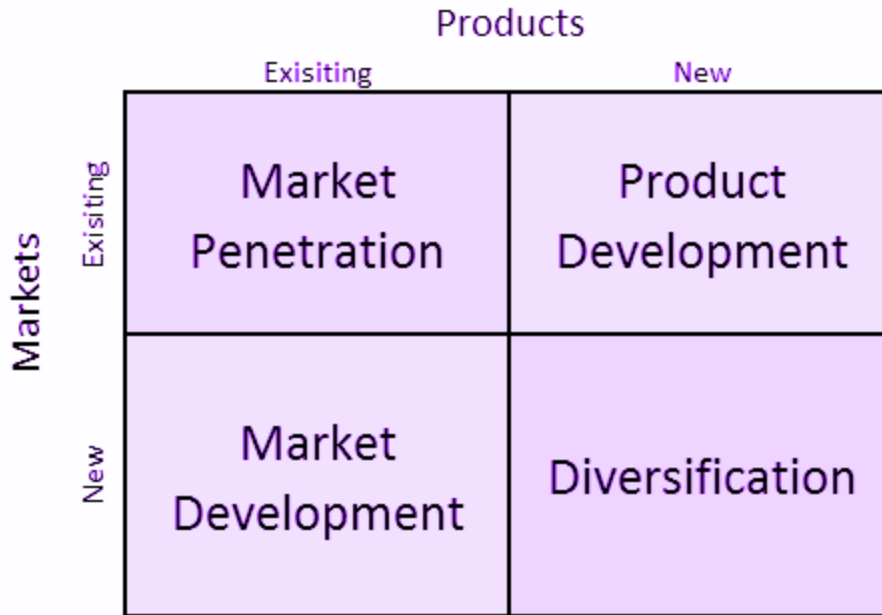
Some sites dealing with the writing of marketing and business plans include:

<http://www.sba.gov/category/navigation-structure/starting-managing-business/managing-business>

<https://asana.com/resources/marketing-plan>

Four Growth Strategies (Ansoff's Matrix):

- (1) Present markets/present products: **MARKET PENETRATION**. This approach requires that a firm/organization attract competitors' customers, increase current customers' usage rate, and attract non-users. This does not require any product changes.
- (2) Present markets/new products: **PRODUCT DEVELOPMENT**. Develop new products. For instance, a college can grow by developing new programs.
- (3) New markets/present products: **MARKET DEVELOPMENT**. Enter new foreign markets and/or attract new market segments. Some firms are finding that using new channels of distribution (e.g., Web or direct marketing) will attract new market segments. For instance, selling movies on the Web by allowing customers to download the film directly to their own computers might attract people who do not like to go to theaters to see films. Many firms (e.g., Pepsi and Coke) believe that there are great opportunities in China and India because of their huge populations. This market-product strategy also does not require any product changes.
- (4) New markets/new products: **DIVERSIFICATION**. This may require product changes since you are creating new products in order to enter new markets. This is the riskiest growth strategy.



Source: <https://research-methodology.net/uber-ansoff-matrix-2/>

Ways to diversify: (A) Integrative Growth Strategies. This includes vertical and horizontal integration. Since a typical channel of distribution looks like this:

Manufacturer => Wholesaler => Retailer => Consumer

Vertical integration means that the manufacturer might, for instance, purchase a supplier (backward integration) or a retailer (forward integration). The oil industry is vertically integrated since the major oil companies are involved in oil exploration and refining the oil; and the gas stations (retailers) that sell the oil are franchisees of the oil companies. Thus, the oil companies have a hand in the entire supply chain. If a shoe retailer purchased a firm that manufactures shoes, this would be an example of vertical (backward) integration. In the film industry, one of the major film production companies purchased a firm that owns theaters throughout the United States (forward integration). Why? To ensure distribution of its films. The best film in the world cannot make money if it is not shown in movie theaters (you might disagree with this point and say that the film could be digitized and sold over the Web = electronic commerce).

Alternatively, one manufacturer (or retailer) might buy out another. If the government allows this (sometimes they may not allow this if it hurts competition or tends to create a monopoly), it is called **horizontal integration**.

Manufacturer => Manufacturer

Or

Retailer => Retailer

(B) **Conglomerative Growth Strategies** - A firm takes over another firm in a totally different business area. This is often done because one firm is rich in cash without many growth opportunities, while the other firm may have many growth opportunities with insufficient capital. Sometimes, a firm takes over a firm in another industry because of the skills that it possesses. For example, a major tobacco company ((much cash, few growth opportunities) acquired a food company that needed money to invest in new products.

Strategic Planning

Companies often consist of several different businesses, and each one is a SBU (strategic business unit). For instance, a firm might be in the tobacco, cheese, coffee, luncheon meats, frozen vegetables, and dessert business. Each of these businesses has its own mission, objectives, and competition, and can be thought of as a separate entity. A major part of strategic planning is determining which parts of its business, e.g., product lines, to support and which to sell. A company should see its different SBU's the way an investor sees her portfolio of investments. Some stocks should be sold and the proceeds might be used to purchase additional shares of other stocks.

The **Boston Consulting Group** approach requires a company to classify its SBU's using two dimensions: how well the industry is doing (market growth rate) and how well the company's brand is doing within the industry (relative market share). This results in the following:

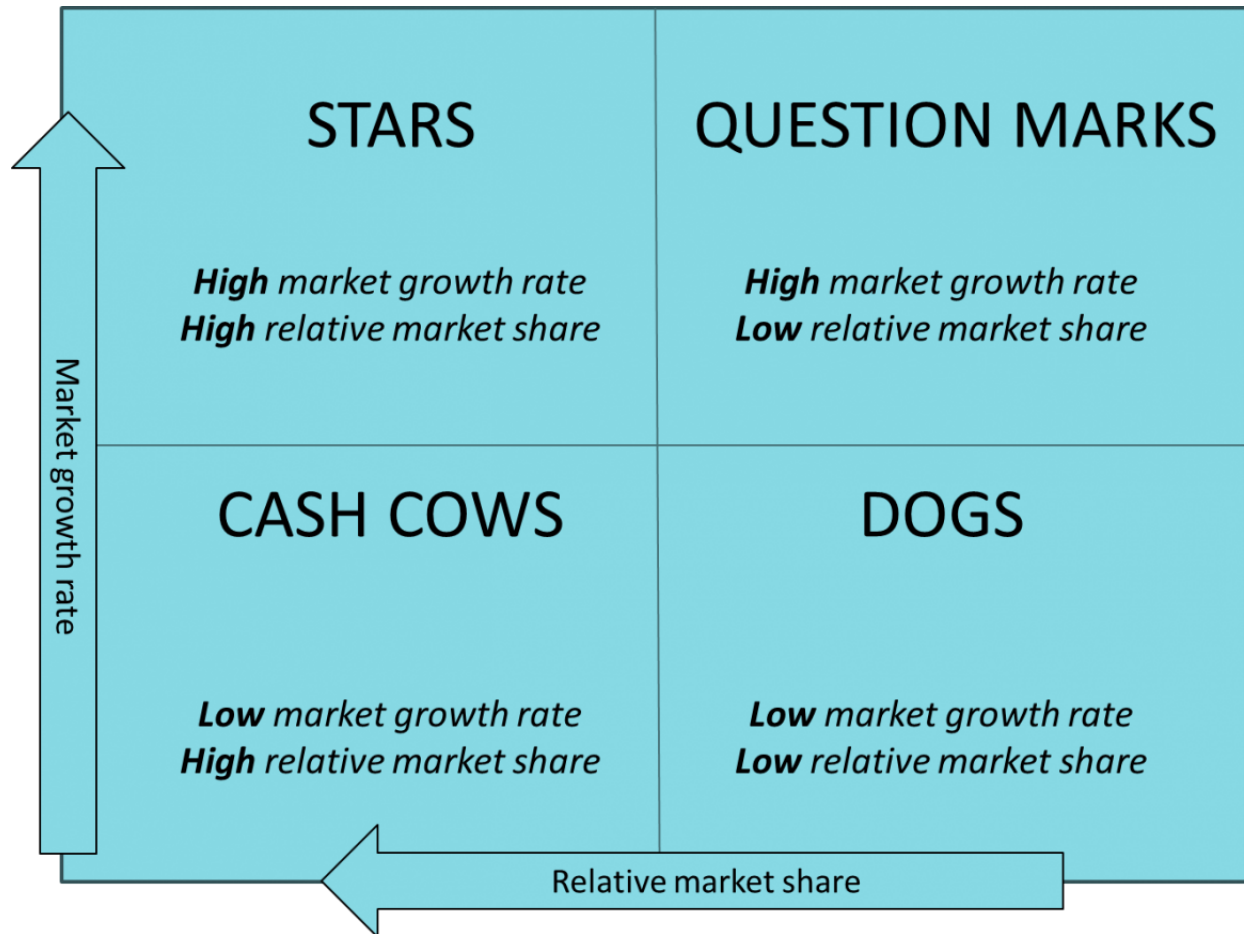
High Market Growth/High Market Share: **Stars**

High Market Growth/Low Market Share: **Question Marks** (also called Problem Children)

Low Market Growth/High Market Share: **Cash Cows**

Low Market Growth/Low Market Share: **Dogs**

Generally, the cash cows generate more cash than is needed to maintain market share. Cows are "milked" and the excess cash is spent on the stars. Dogs might be eliminated or sold—unless a new strategy can be developed to revitalize the brand. Question marks also need work—should management eliminate them or try to turn them into stars? Turning a question mark into a star requires money.



Source: <https://www.234finance.com/rate-your-start-up-stars-cash-cows-dogs-or-question-marks/>

Sales Forecasting

Companies that truly care about satisfying customers need to do some forecasting. A company should be making short-run forecasts (3 to 12 months) as well as long-run forecasts (1 to 5 years and even beyond that in many cases). For example, a utility that sells electricity should be forecasting electricity usage for the next ten or twenty years. After all, it takes about ten years to build a nuclear power plant. Even a college should do some forecasting so that it knows how many students will be taking courses and majoring in various areas. Utilities that do not plan for the future will find that they have to cut voltage on a regular basis or have brownouts. Some of you may recall a blackout or two that we have had in the past. Forecasting is important since it provides a basis for scheduling production, determining personnel needs, determining plant and equipment needs, establishing sales quotas for salespeople, making pricing decisions, scheduling purchases of raw materials, etc.

There are many methods used in sales forecasting. Some are judgmental, others involve surveys, and some use sophisticated statistical techniques.

A. Judgmental Methods Used in Sales Forecasting:

(1) **Jury of Executive Opinion:** You bring together key executives from various areas (finance, marketing, etc.) and use them as a panel to make forecasts. The advantage of this method is that it is quick and inexpensive. However, the executives need to be familiar with the total business environment. Some colleges use Deans (or department chairs) for forecasting student demand.

(2) **Composite of Salesforce Opinion:** With this method, salespeople provide sales forecasts for their territories. These salespeople are involved in B2B (Business to Business) usually so they have a great deal of expertise. The belief is that salespeople talk to their customers and should have some ideas what the future will be like. Of course, you may have to adjust the forecasts upward since salespeople tend to be overly conservative for a good reason. They want to look good and show that they beat the forecast.

(3) **Outside Experts** might be used for forecasting. In fact, trade associations generally do a great deal of forecasting. This is one of the jobs of a trade association (you can find the name of the trade association as well as the address in the Encyclopedia of Associations). I have called associations to get information. There are associations for every major industry -- American Dairy Association, American Soybean Association, etc. One of the jobs of an association is to forecast sales.

B. Quantitative Methods Used in Sales Forecasting

(4) **Survey of Customer Intentions:** This method is more useful in B2B marketing where you do not have to deal with that many respondents. Suppose you have 5,000 customers. You can survey a representative sample of them (200 may be enough) and ask what they expect demand to be like in the future. Incidentally, Business Week magazine surveys businesses in order to determine such things as capital expenditures (capital expenditures survey). You do not have to survey every single business; what you need is a representative sample.

(5) **Test Marketing:** This technique is used with new products. Before introducing a new product nationally, a company may do a test market (this will be elaborated on in the section dealing with new products). A test market involves introducing a new product in a limited number (usually 2 or 3) of test cities that are supposed to be very similar to the US as a whole. Some examples of popular test market cities are Portland, Maine; Albany, NY; Sacramento, CA; Erie, PA; Syracuse, NY; Portland, OR; etc. What you try to find out is your market share in the 2 or 3 test market cities. This number is then used to make projections as to what sales will look like when the product is introduced nationally.

The next four methods are taught in the statistics and operations management courses. I will only briefly touch upon them. They are all related to **Trend Extrapolation**. With trend extrapolation, you look at the past data and extend it into the future. The implicit assumption is that what happened in the past will continue to happen in the future and there will be no sudden changes or new factors to consider. Often, researchers will feel that the long-term trend is linear. If this is the case, **Linear Trend Extrapolation** will be used. Drawing a trend line is easy to do with a computer. The technique that is usually used to draw a trend line is regression.

(6) **Time Series Analysis:** This statistical technique assumes that time is the major predictor variable, i.e., that sales are a function of time. Time series data are usually decomposed (broken down) into four parts. Trend (long term), Cyclical variation (fluctuations due to the business cycle), Seasonal variation, and Random variation. By breaking down the time series, it makes it possible to forecast sales. The Trend line is usually a straight line that goes through the data. This is difficult to explain in words and this is why it is taught in the operations management or statistics course.

(7) **Moving Averages:** This is a statistical technique used to smooth out data by averaging highs and lows. This is beyond the scope of this course.

(8) **Exponential Smoothing:** A statistical technique used to produce short-run forecasts. It is built into many statistical packages and easy to learn but beyond the scope of this course. It is basically a weighted average approach that includes all the data from the past to predict the future

(9) **Multiple Regression:** A very popular statistical technique used for forecasting. You have one dependent variable (the Y-variable) and it is assumed to be a function of several independent variables (the X-variables). The trick is to find the best X-variables to predict the Y-variable. The X-variables are sometimes called the predictor variables. For example, a fast-food chain such as Subway presumably has a multiple regression equation for predicting sales. The independent variables may be such factors as population within a square mile (or whatever the trading area is for a Subway; I am assuming that the customers do not come from too far to eat at a Subway), number of children within a square mile, number of competitors within a square, vehicular traffic, etc. If the regression model is good (there are measure such as R-Square that tell you how good the model is), it can be used to predict sales in new areas. Note that you use real data from existing stores to build the regression model. It can then be used to predict sales for various proposed locations.

Leading Indicators -- These are economic time series that lead --i.e., go up or down -- several months before another other key time series moves up or down. The Government is interested in leading indicators that lead Gross Domestic Product (GDP). GDP is the total value of the nation's output of goods and services and represents the entire American economy. Some leading indicators that lead GDP are: new building permits issued, index of stock prices, average weekly claims for state unemployment

insurance, contracts and orders for new plant and equipment, index of consumer expectations, average workweek of production workers in manufacturing, etc. The Government has an *Index of Leading Indicators* that combines many of these into one time series. If the *Index of Leading Indicators* goes down for several months in a row, that is a bad sign for the economy. Thus, the *Index of Leading Indicators* gives us early warning of what to expect in the future.

Columbia University's Center for International Business Cycle Research (CIBCR) developed the Leading Indicators of Inflation (it is a composite of seven individual indicators) to predict whether we are going to have inflation. Of course, if a sales forecaster finds the perfect leading indicator, s/he would be able to do a great job in predicting future sales.

You can learn about many of the above topics at the Marketing Teacher's Website:
<https://www.marketingteacher.com/>

You can learn how to write a marketing plan by going to:

<https://www.knowthis.com/marketing-tutorials/how-to-write-a-marketing-plan-part-1/>

<https://www.knowthis.com/marketing-tutorials/how-to-write-a-marketing-plan-part-2/>

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