

Unit 2

Small Business Research

Profile of an Entrepreneur

Bruce Hill, 1959–

Bruce Hill is the owner of a very successful business, Superior Alarm, in Grand Junction, Colorado. His entrepreneurial journey has been an interesting one.

As a high school student, Bruce was the manager of the Grand Junction office of H & R Block, the seasonal tax company. When clients were led into his office, their initial question was invariably, “Do you know what you’re doing?” The reason for the question: Bruce was only 17 years old. That’s right—he was certified as an H & R Block tax consultant at the tender age of 16 and a year later was promoted to manager.

When questioned about his ability, Bruce’s response was always, “If you feel uncomfortable with me, you can get back in line and wait for another consultant.” He never had a taker! At this point you might think that Bruce Hill was a child prodigy, a natural-born whiz with numbers.

Bruce Hill, future entrepreneur, was born and raised in Grand Junction. When he got his driver’s license, Bruce became the “runner” for his father’s accounting business and began his lifelong association with the Grand Junction business community.

In high school Bruce was an average student. He was class president and a

talented athlete in track and football. By his own admission he “coasted through,” but he was bored with school.

After graduating and marrying, he started college. But college, too, proved to be boring and not much of a challenge.

One night, while at a social function with his wife, Bruce was introduced to the owner of a local security firm. After a brief conversation he was offered a job. His response was, “Is it inside?” Since leaving college he had been working as a laborer in the snow and cold and wanted more comfortable employment. Bruce learned that the business owner was thinking of getting out of the business in a couple of years and that if Bruce went to work for him, he would have the opportunity to purchase the business.

Bruce didn’t know anything about the security business, but he did know that he wanted to be his own boss. Several dead-end jobs and constant exposure to the elements had convinced him he wanted to give orders, not take them. Although the offer sounded too good to be true, Bruce accepted it.

He jumped right into his new job, making significant contributions almost immediately. His boss was amazed to see such a young man tackle tasks no one else had accomplished, such



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COURTESY OF BRUCE HILL



COURTESY OF BRUCE HILL

as computerizing the administrative work. True to the owner's promise, less than two years later Bruce and another employee were given the opportunity to buy the business. The owner told them they had six months to decide.

Over the next few months Bruce used his accounting expertise to evaluate the business. He concluded the company was solid and potentially very profitable. There was one catch: where would he get his share of the down payment? Although the owner was willing to carry the note himself, he required a substantial payment up front. By mortgaging their home, Bruce's parents came through with the necessary capital. Bruce Hill, 22-year-old entrepreneur, was born. Already the astute businessman, he held a 51 percent position in the new venture.

Superior Alarm, Inc., is a company that installs, services, and monitors alarm systems. Although profit is made from the sale and installation of alarm systems, the company's real bread and butter is its monitoring function. After a system is installed, the customer pays a monthly fee to have it monitored. The volume of people paying regular monitoring fees yields a healthy profit.

As happens with many entrepreneurs, the demands of business eventually took their toll. A rift developed between the two partners. As if that were not trouble enough, husband and wife also drifted apart. Ultimately both partnership and marriage were dissolved.

For the next 10 years Bruce built a strong business while raising two kids by himself. One philosophy that came to permeate everything Bruce did was that family must come first. This is evident in his management style, which treats long-term employees more like family than employees.

The best description of Bruce's management style is "interconnected flat." All employees are cross-trained so that if an employee is absent, the job still gets done. Bruce uses the analogy of a circle in which all employees are holding hands. One employee is just as important as another. If one person steps out of the circle, the circle becomes smaller, but all necessary jobs are still taken care of. Employees are self-directed and may call something to the attention of any other employee, including Bruce.

Another aspect of Bruce's management style is that he treats people the way he wants to be treated. In any contract negotiation he asks himself, "If I were the other guy, would I feel the contract is fair?"

Superior Alarm has a written marketing plan in which the main strategy is word-of-mouth promotion. Any advertising is designed for name recognition only. Unlike others in the security business, Superior Alarm refuses to stoop to scare tactics in its promotion.

Bruce's community involvement also generates company publicity. Activities include serving as city councilman, Kiwanis Club member, and vice president for the Junior College

Baseball World Series held in Grand Junction every spring. Bruce attributes about 30 percent of his business to contacts made through this involvement. He is quick to add, however, that service to his hometown, not profit, is the reason he participates.

Bruce's overall business strategy is one of wise and efficient money management. He stresses that a business is smarter if it saves for what it wants instead of paying interest rates. "I despise debt," he says. He feels that part of what is wrong with government and business today is the tendency to borrow and go into debt instead of paying as they go.

Bruce has this advice for young entrepreneurs: "All work must be checked and double-checked every time, quality has to be the first and foremost concern, enter business with a long-term perspective, be timely in all aspects of business, and above all else, stand behind your word."

When asked to rate his success on a scale of 1 to 10, with 10 being high, Bruce rates himself a 6. "If I say I'm a 10, I'm done, I'm history, I'm out of here, I'm on my way down. I have to try harder every day, keep refining it. My worst competition is myself. As soon as I say I'm an expert or I'm great, somebody will roll over me."

If Bruce Hill's worst competition is himself, his best employee and best ally are also himself. He has made Superior Alarm immensely successful. Its future rests squarely in his very capable hands.

Chapter 5

Develop the Marketing Plan



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Objectives

- 5-1** Explain the marketing concept.
- 5-2** Discuss target marketing and market segmentation.
- 5-3** Explain the role of product, place, price, and promotion in a marketing plan.
- 5-4** Analyze the process involved in the development of marketing strategies.

THE MARKETING CONCEPT

To be successful, entrepreneurs must develop effective marketing plans. But first they must have a full understanding of the marketing concept.

The **marketing concept** is the belief that consumer wants and needs are the driving force behind any product development or marketing effort. There was a time when producers, such as automobile manufacturers, designed and produced their products with little regard to consumer wants and needs. Decisions were made primarily on investment reasoning. With little competition in the marketplace, it worked. Consumers were forced to purchase what was available, not necessarily what they desired. That has changed greatly in the past 50 years. Consumers are more educated, and competition has increased, particularly in regards to globalization. Consumers now expect to have their needs satisfied and can choose from a much broader array of goods than ever before.

The United States has evolved from a product-driven market to a consumer-driven market. A business owner who believes he or she can survive simply by introducing a product or service to the market quickly learns that the product is only part of the concept. The marketing concept works to the advantage of small business owners, who know their customers better than large businesses do. They can communicate on a more personal level and can be more flexible and more responsive in satisfying customer needs.

Market Research

Developing a marketing plan starts with a market research process designed to learn as much about the potential customer as possible. The American Marketing Association defines **marketing research** as “the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services.” Marketing research requires completing six steps.

Step 1 Define the Question

Entrepreneurs often have concerns or are not sure about certain aspects of their business. By putting their concerns into words, they define the question that will be the focus of the research. A typical question entrepreneurs ask themselves is, “Which people are likely to buy from my business?”

Step 2 Determine What Data Is Needed

After the question has been determined, data must be collected to provide the answer. Entrepreneurs must determine what kind of data will be the most helpful. Not all data will provide the needed information. For example, data about the number of customers who visit a certain mall each year does not indicate what those customers purchase.

Step 3 Collect the Data Entrepreneurs determine if there is a market for a product or service by collecting and studying information about consumers in the desired market. In a demographic study, data is collected about the age, employment status, education, per capita income, ethnic ratio, gender ratio, and economic stability of the target population. The **psychographics** of the market should also be researched. Are the people socially active, or do they

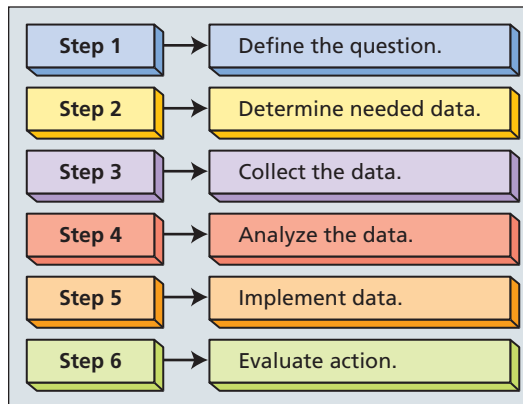


FIGURE 5-1

Marketing Research Steps

tend to stay at home? Do they have a lot of leisure time? The answers to these questions will be important in determining if the intended product or service can be sold successfully to this market.

If the product or service is industry oriented, such as surgical equipment for hospitals, the entrepreneur should conduct a study of the targeted industry. Such a study would include the number of potential customers in the industry, their locations, and their sizes in terms of sales revenues and number of employees. It is also helpful to learn the particulars of the industry, such as economic trends and which companies are the leaders.

The collected information will include primary and secondary data. **Primary data** is original research data often collected through surveys and questionnaires. **Secondary data** is available at the local chamber of commerce, library, or community college in the form of published information about the number of people living in a community, average education level, per capita income, and gender ratios. Secondary data is also readily available through the Internet. An entrepreneur who wants to learn more about potential new markets for a chain of shoe stores, for example, could collect and analyze the information shown in Tables 5-1 through 5-6.

Table 5-1 is an example of how secondary data collected from a chamber of commerce can be useful. It is a population chart for the five communities that make up Spring County. It shows the population of each community in 1990 and 2000 and the projected population for 2010.

In addition to focusing on specific communities, entrepreneurs should collect data about geographic areas larger than the intended market so they can understand the total picture. In this case, data can be collected about Spring County, the surrounding counties, and other cities in the state.

TABLE 5-1 COMMUNITY POPULATION ESTIMATES			
Community	1990	2000	2010
Spruce City	52,000	75,000	99,000
Wallington	25,000	28,000	31,000
Henry	17,600	17,800	17,500
Riceville	24,300	26,300	28,500
Newton	33,600	39,500	47,400
TOTALS	152,500	186,600	223,400

Step 4 Analyze the Data After compiling primary and secondary data, entrepreneurs must analyze the information in a systematic manner. The analysis should include both the results and an interpretation of those results. All useful data should be included. A thorough analysis and interpretation can provide answers to many kinds of questions.

Table 5-1 not only provides basic population figures but also shows a growth pattern. You can see what areas of the county are growing the fastest and which are likely to continue growing. If a business is to grow, the entrepreneur must consider what may happen five or ten years down the road.

The information in Tables 5-1 and 5-2 tells you that Spruce City's population is young, densely populated, centrally located, and growing faster than

TABLE 5-2 AGE AND ETHNIC STRUCTURE

Community	Median Age	White non-Hispanic (%)	African American (%)	Asian (%)	Hispanic (%)	Native American (%)
Spruce City	32.1	87.5	6.9	1.6	2.3	1.7
Wallington	34.5	91.6	4.4	0.0	1.8	2.2
Henry	37.0	83.2	10.5	3.3	0.7	2.3
Riceville	42.5	76.4	14.6	4.8	0.0	4.2
Newton	38.4	92.0	3.2	1.2	2.6	1.0

the population of any other community in the county. The information in Tables 5-3, 5-4, and 5-5 tells you that the county head-of-household income and per capita income are higher than average and are expected to continue to grow. These facts are positive indicators for opening a new business in Spruce City in Spring County.

A county map is useful in determining the best location for a new business. By pinpointing the county's population centers, the entrepreneur can estimate the traveling time between populated areas and determine the accessibility of the business to potential customers.

TABLE 5-3 AVERAGE HEAD-OF-HOUSEHOLD INCOME BY COUNTY

County	Average Income
Jackson	\$20,427
Spring	19,978
Concord	19,865
Wilson	18,696
Newton	18,480
Walton	18,205
Cory	17,680
Denton	17,435

TABLE 5-4 INCOME GROWTH, TOP 8 CITIES IN STATE

City	Income Growth (%)
Springfield	38.8
Smithville	37.8
Winston	37.0
Spruce City	35.4
Canton	34.7
Jonesborough	31.8
Green City	31.5
Howard	29.6

TABLE 5-5 PER CAPITA INCOME, TOP 5 COUNTIES IN STATE

County	1990	2000	2010
Atlas	\$12,940	\$15,540	\$19,500
Spring	12,861	15,120	19,380
Desmond	12,140	14,800	18,700
Concord	11,985	13,980	17,310
Pacific	11,620	13,870	16,940

Another information ingredient of value to entrepreneurs is a breakdown of sales in the county by industry classification. By comparing the information in Table 5-6 with the same information from other counties, an entrepreneur can tell which categories of products sell better in Spring County. Industry sources can often provide information on the average per capita sales of a product or service in the national or regional market. The same sources may also be able to help an entrepreneur determine how many customers it will take to support the new business under consideration. This information will tell the entrepreneur if sales of the product in the intended market are higher or lower than the national, regional, and local marketplaces.

Store Type	Total Sales	Per Capita Sales
Restaurants	\$7,340,000	\$389.71
Apparel	3,419,000	182.61
Furniture	1,760,000	89.89
Shoes	792,000	40.18
Records, music	388,000	20.16
Gifts/novelties	313,000	16.85

Step 5 Implement the Data The next step in the market research process is to use the research data to make a decision and develop a plan of action.

For example, a shoe store is a good possibility in Spring County. The research shows a growing population with a higher-than-normal per capita income, indicating a healthy economy. Further research would show the average spent per capita on shoes in Spring County, \$40.18, is below the national average, \$42, and slightly below that of the neighboring county, suggesting a shortage of shoe outlets. It is possible to carry the research quite a bit further. It can be used to forecast potential sales and to determine if the shoe store should be large and located in a centrally located community, or small, more specialized, and in a smaller community.

Step 6 Evaluate Action The last step in the market research process is evaluation. Entrepreneurs should not be satisfied with just developing a plan of action. The actions taken as a result of the plan should be evaluated regularly after implementation.

To be sure the market research will accomplish its purpose, the entrepreneur should consider the following:

1. Demographic information is only valuable if compared to the same information for other markets.
2. The process of market research should be ongoing, because the marketplace is constantly changing. It is important to stay informed about current events and changes in the marketplace and continually try to project what may happen next.
3. To keep up with and take advantage of market changes requires knowledge. Knowledge is the result of research.
4. Determination and creativity are necessary for success.

TARGET MARKETING

Identifying the customer begins with **market segmentation**. Since small businesses do not serve mass markets, the entrepreneur must determine which portion of the market is most likely to buy the product or service offered. An example of market segmentation would be to separate country western music fans from those who listen to hard rock and classifying the listeners as different market segments. Markets can be segmented on the basis of who benefits from the product or service, age, geographic location, or other demographic or psychographic factor.

After completing a general marketing segmentation process, entrepreneurs go a step further by targeting their particular market or **niche**. It is imperative that the small business target its marketing efforts to a small and manageable segment of the market that can be effectively reached and influenced. Entrepreneurs need to make sure, however, that the targeted market is stable, permanent, and large enough to support the business.

Properly identifying a new business's ideal customer is a very important step in writing an accurate business plan. Creating a **customer profile** tells the entrepreneur to whom the marketing plan should be directed. This group is the **target market** and should be quite narrowly defined. Think of the customer profile as the center of a target. The marketing arrow is aimed at the bull's eye, with some ripple effect, or overflow, onto the outer rings. The outer rings represent customers who have some of the characteristics of the ideal customer and who might buy the product. Since small businesses do not have the capital to attract the mass market through mass media advertising, they must concentrate their efforts on the group of customers most likely to buy their goods and services. This is target marketing. Once the target market is determined, the business can start to develop a marketing plan to attract this segment of the market.

The identification of the target market allows the business owner to select a specific product style or type—for instance, designer clothes versus everyday wear—determine an acceptable price, find a proper location, and select the appropriate promotional tools to communicate with the customer. If the target market is incorrectly identified, the entire business plan will be incorrectly projected.

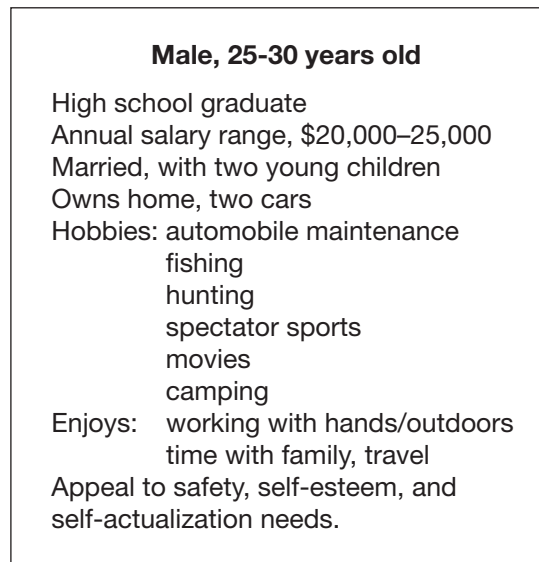


FIGURE 5-2

Customer Profile

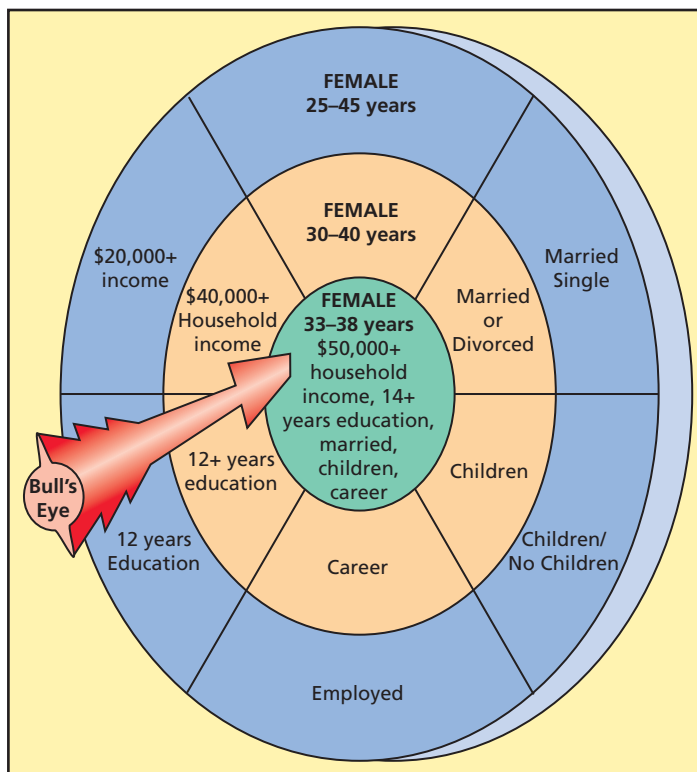


FIGURE 5-3

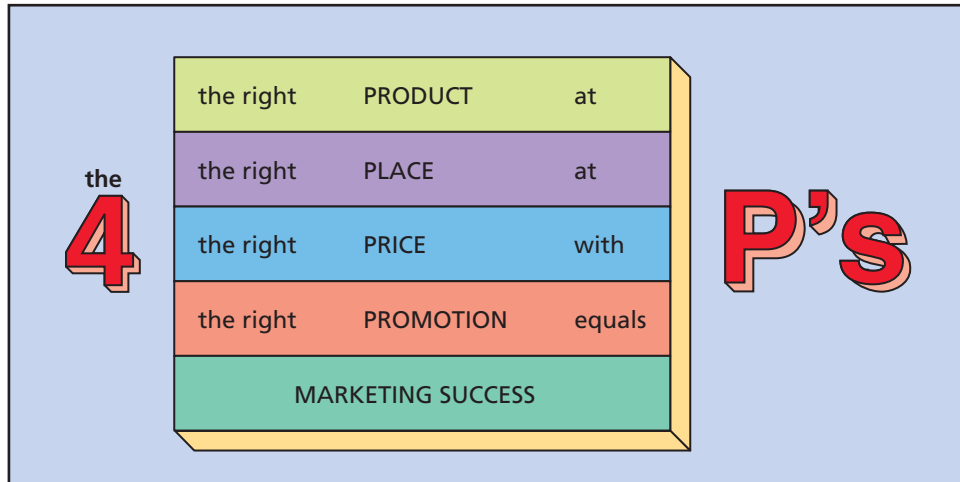
Target Market

THE FOUR P'S OF THE MARKETING MIX

The four P's of the **marketing mix**—product, place, price, and promotion—are the heart of a marketing plan for any business, large or small. Small businesses take a different and more personal approach to the four P's than large businesses do (Figure 5-4).

FIGURE 5-4

The Marketing Mix



Product

Product is a marketing tool if you are able to convince consumers that your product best satisfies their needs. Every product has both tangible features (things you can see and touch) and intangible features (things you feel). A product is much more than the item you take off the shelf. The total product also includes the packaging, the warranty, and all other elements intended to satisfy consumer needs. It is essential to understand the needs being satisfied by the product you sell. An expensive, designer-label gown serves a different need than a simpler, more practical dress. One is purchased for a special occasion, the other for everyday wear. Before you can develop a marketing plan, you must know the need your product will satisfy.

Your next step is to narrow your focus to the specific products you will offer. A bookstore owner must decide what books to stock. If she makes the wrong decision for her marketplace, the consumers will find other outlets. Not all products in her **product mix** will sell equally well. Best-sellers will outsell American history books, but she must carry some history books if she is truly consumer driven, because there will always be some consumers with a need for history books. The challenge is to determine how large a selection of history books will be sufficient to satisfy the needs of her marketplace.

In a consumer-driven business, entrepreneurs recognize that they must include products in their product mix that may not be profitable from a sales standpoint but that create the perception that their store “has it all.” It is often said that 80 percent of profits are derived from 20 percent of the products. Although the exact figures differ from industry to industry, the basic premise that a minority percentage of the product selection makes up the majority of sales revenues is often true.

Place

Place—the exchange point of a product—is an effective marketing tool if the business can create the perception that the product is easy to acquire. The entrepreneur has to make sure that the right product is in the right place at the right time. In retailing, the product must be on the shelves ready to be sold when the consumer walks into the store. If it isn't, then all the marketing planning in the world will not make the business a success.

A manufacturer must decide the best way to get the product into the hands of the consumer. The available distribution networks are called **channels of distribution** (Figure 5-5).

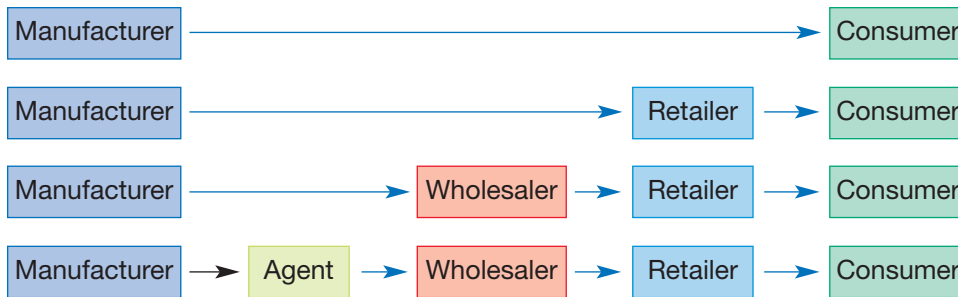


FIGURE 5-5

Channels of Distribution

One option is for the manufacturer to sell directly to the consumer. The product can be sold through the Internet, television infomercials, direct mailing pieces such as catalogs, or media advertising. It would certainly appear to be the most cost-effective option, as there are no middlemen. However, it may not reach the sales objective.

Another possibility is to create a sales force to sell to retail stores, which then pass the product on to the final consumer. Although this channel is more expensive than selling directly to the consumer, it offers potentially far more sales opportunities.

If a large market is anticipated, the manufacturer might sell the product to a wholesaler, who then sells to a retailer, who sells to the final consumer. This method is particularly appealing when large bulk amounts are involved, as the wholesaler buys in large quantities and breaks those down into more manageable quantities for the retailer. It adds another middleman at greater expense, but it may also add substantially to sales and allow the manufacturer to produce more, thereby lowering the cost of unit production. Manufacturing in greater quantities to lower unit cost is called **economies of scale**. Often economies of scale offset the cost of adding middlemen to the channel of distribution and can even add to profits.

A final option for distribution is for the manufacturer not to get involved at all with the marketing or distributing efforts but to turn those responsibilities over to an agent. This is often done in overseas marketing. The domestic company may not understand the peculiarities of the foreign marketplace and uses a host country agent to represent the company.

FUN FACTS

The number of U.S. companies exporting goods has increased more than 200 percent in the past 10 years. (U.S. Department of Commerce)



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Price

Price is the marketing tool that sells value to the consumer. The price charged must be low enough that the consumer will want to buy, but high enough for the entrepreneur to make a reasonable profit. Often entrepreneurs are not careful to protect their profit margins and end up setting their prices too low. An adequate profit margin must be built into the marketing plan.

Successful small business owners know their product and customers better than large businesses do. Because of this they generally do better work, are more flexible, and offer more services. Consequently they should be able to receive a fair price for their product or service, not a discounted one. When they do not receive full value for their efforts, they cannot make the necessary profits to sustain their business for the long term.

Setting a price demands that the business owner

1. Cover the cost of the products or services sold, including the cost of acquiring and receiving them
2. Cover the cost of all business operating expenses
3. Make sure that profits are sufficient to pay the owner a fair salary for efforts and risk invested
4. Retain a certain portion of the revenue for future expansion and improvement of the business
5. Entice customers to return because of the high value they perceive for the prices charged

When price is an effective marketing tool, there is no reason to hide it. Good pricing tells your customers that you are proud of what you sell and that they will be pleased with the exchange.

Promotion

Promotion is the way a business communicates with its market. Good communication tools are very important to marketing success and should be built into the marketing plan. It is through promotion that the entrepreneur informs the potential customer about the product or service. Promotion includes advertising, sales promotion, personal selling, visual merchandising, and public relations. These activities are termed the **promotional mix**.

Advertising Although considered by many to be an expensive part of starting and operating a business, advertising is a sales tool that cannot be ignored by entrepreneurs offering products or services directly to consumers. **Advertising** is defined as a paid-for, nonpersonal presentation of a sales-enticing

message. Small business owners should look at it as a personal presentation, however, since they are closer to their customers and know them better than large businesses do.

There are several reasons advertising is so important.

- Advertising lets customers know that the new business exists and where it is located.
- Advertising informs customers about the products or services that the business offers.
- Advertising provides ongoing communication with the customer.
- Advertising keeps the business's name in front of the buying public.

As an entrepreneur, you must select the form of advertising that best suits your business. The most common forms of advertising are newspaper, radio, and television. All three media reach a large audience but can be quite expensive, so a decision to use any of them for advertising must be made carefully. Other types of advertising you might consider are yellow pages ads, direct mail, billboards, Internet pop-ups, and specialty advertising. Examples of specialty advertising are calendars or key chains with the business name imprinted on them. (Advertising is discussed in greater detail in Chapter 11.)

Sales Promotion To ensure effective **sales promotion**, entrepreneurs must understand the communication channel. The communication channel, illustrated in Figure 5-6, consists of five steps or points in the sending of a message: message sender, encoding, message vehicle, decoding, and message receiver. The message sender decides what message is to be relayed, creates the message (encoding), and determines the best method for relaying the message (written, verbal, or by means of a second person). Once sent, the message is interpreted (decoded) and absorbed by the message receiver. The sender waits for the feedback, or response, from the receiver. The feedback might be a returned message or an action taken as a result of the message.

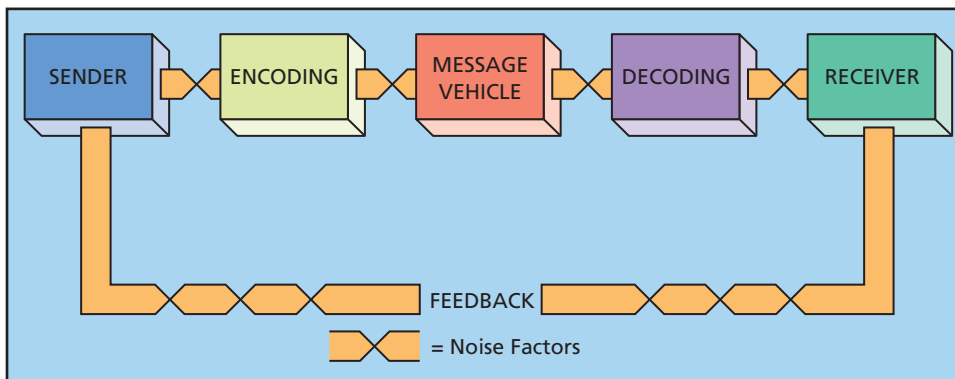


FIGURE 5-6

The Communication Channel

In sales promotion, the entrepreneur is a message sender hoping for a positive response from the message receiver, such as confirmation of a sale. To maintain an effective communication channel, the entrepreneur must recognize that distortions and interruptions will disrupt the messages. The distortions, called “noise factors,” impose severe limitations on how intended messages are received and interpreted. A simple analogy is the game of sending a message around a group—each person whispers the message to the next person, who then passes it along to the next, and so on. The message received by the last person usually bears little resemblance to the original message. In sales promotion, noise factors are any interruption of or distraction from a sales message.

In sales promotion, the best way to get a message across is through repetition. The more times a message is sent, the better the chances that it will be received in its intended form. This is why advertisements are repeated many times. The advertiser believes that with continual and repetitive exposure, the intended message will eventually get through the noise factors and be received in its intended format, resulting in more sales.

One of the most common tools for sales promotion currently used by businesses is coupons. Businesses give away coupons to their target customers through newspapers, magazines, direct mail materials, free samples, and free gifts. The smart entrepreneur chooses sales promotion tools carefully. Because they can be very expensive, sales promotions should be focused, well planned, and well implemented.

Personal Selling The importance of personal selling to the success of a business cannot be overstated. Customers are more likely to purchase a product or service from knowledgeable people they like and trust. New business owners may hire salespeople or have family members help out, but they often do most of the personal selling themselves because they generally have few employees and they usually know the product better than anyone else. With their confidence, determination, and need to achieve, entrepreneurs are often natural salespeople.

The selling process involves six steps.

1. **Approach** This is the technique used to introduce the product and make the transition into the sales presentation.
2. **Presentation** A carefully orchestrated declaration of the features, advantages, and benefits of the product follows the initial approach.
3. **Handling objections** Objections or possible resistance should be anticipated by the salesperson. Answers and solutions should be practiced in advance of the presentation.
4. **Trial close** A good salesperson learns how to test the waters to determine if the customer is prepared to buy. If the time does not appear to be right, the salesperson goes back to the presentation or makes sure all objections have been overcome.
5. **Close** A sale is not complete until the purchaser declares his or her intent to buy. It takes a certain skill to ask for the order in the proper way and close the sale.



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6. **Follow-up** In many sales situations the buyer may feel **cognitive dissonance**—that is, uncertainty as to whether the purchase was the correct one to make. Good salespeople know how to follow up a purchase with a personal compliment, a thank you note, or even a telephone call. This may also be a good time to set the stage for the next appointment.

There are many sales programs, courses, and books available on effective selling techniques. Selling takes knowledge not only of the product but of the proper technique. The entrepreneur is the number-one salesperson in the small business and must make sure that all personnel are taught how to sell and feel confident in their approach.

Visual Merchandising Window displays are a common form of **visual merchandising**. Interior uses of merchandise to attract customers' attention are another form—for example, shadow boxes, display cases, and mannequins. Retail stores are not the only businesses that use visual merchandising. Wholesalers and manufacturers use product displays at trade shows to attract retailers. Displays are called “silent salespeople” and, if properly designed, can be a very valuable and affordable addition to the company's sales force.

Public Relations A complete marketing plan should include a strategy for public relations. **Public relations** (PR) consists of planned events that demonstrate the goodwill of a business. Often these are in the form of sponsorships or charitable volunteer work. Although these activities do not give an immediate feedback, they do give a long-run return in the form of customer and community attitude toward the business.

Good entrepreneurs often use PR to promote their businesses more directly. They learn what parts of their business might be of interest to the public and then keep the news media informed of any interesting developments. For example, a bridal shop receives a new line of bridal gowns and notifies the local newspaper, which runs a feature story about the latest bridal look available at that store.

FUN FACTS

Online retail marketing is experiencing about 200 percent annual growth. Internet sales accounted for approximately 6 percent of all sales during the 2003 Christmas selling season.



The Global ENTREPRENEUR

The vast majority of U.S. entrepreneurs engaged in international trade start by developing a business relationship in Canada, Mexico, or the United Kingdom. The reasons are simple—language, geography, and cultural similarity. The most difficult aspect of international trade is developing a marketing plan that will work in a foreign country. Marketing efforts must be designed for markets often quite different from the domestic market. Entrepreneurs prefer to start out in countries with fewer language and cultural barriers before they move on to more complex situations. A business that starts with a simple export or import arrangement with a seller or supplier in Canada often matures into a multinational business with host-country sales representatives or distributors all over the world.

Think Critically

1. Describe a channel of distribution that would be effective for selling flags in Spain.
2. Call the consulate of a foreign country and request any materials they may have for potential international trade partners.



Ethics for **ENTREPRENEURS**

Ned and Barbara were working on a layout for their new housing development, called The Orchard. The centerpiece would be a restored farmhouse and barn, and the homes would have a rural, early-20th-century look. There would be a meadow, walking trails, and a covered bridge over a meandering stream. The development would include 50 home sites on small lots, rather closely clustered together.

Barbara gave Ned a final plan for his approval. He noticed that two spaces originally listed as lots for sale were labeled as parks.

“Barbara, what’s the deal on these two lots? I thought we were going to sell them. You have them labeled as parks.”

“I know, Ned. I thought we could show them as parks in the brochure in the beginning and sell them later, after we’ve sold most of the other lots. It will help our marketing if we show more green space.”

“Isn’t it illegal to misrepresent lots for sale as park space?”

“Not really. We aren’t changing how they’re legally listed at the county property tax office. I don’t think any buyers will check the courthouse records about those two lots.”

“I don’t know, Barbara. Just because it’s legal, is it ethical? We need to rethink these plans.”

Think Critically

1. How would you feel if you bought a house lot beside what was advertised as a park, but was later sold as a lot for a home?
2. Cite examples of other legal actions in selling real estate that may not be ethical.

MARKETING STRATEGIES

Strategies are developed to accomplish goals. The goal of all new business start-ups is growth. Once the four P’s are thoroughly analyzed, the entrepreneur can put together a strategy to gain growth by achieving a marketing superiority over the competition. Decisions must be made regarding where to buy the products or materials and how they will be shipped to the business. An appropriate inventory system must be designed to assure the right product is there at the right time. Final pricing decisions need to be made. Finally, a promotion plan to attract and keep customers must be created.

Implement Marketing Strategies

There are six steps to developing a complete marketing and promotional strategy.

Step 1 Establish an Advertising Budget A certain amount of advertising must be done to launch a new business. Entrepreneurs need to decide what kind of advertising will best serve their type of business. For assistance, the entrepreneur should contact the newspaper, radio station, or other media that will be used. Media specialists will be available to discuss schedules, costs, and

other necessary information. A little extra time should be devoted to comparing the costs for different types of advertising as well as costs between competing media, such as two radio stations or two newspapers. The information from this investigation should be used to develop an advertising budget. Although the expense of advertising may seem excessive, it is a necessary expense.

If the entrepreneur feels there is no money available for advertising, it may be an indication that there isn't enough money to start the business. A delay in the start-up schedule should probably be considered.

Whatever the type of business, some form of "grand opening" advertising is usually recommended. The budget for this advertising is a one-time expense and should be separate from the operating advertising budget. If newspaper, radio, or television rates are too high, the entrepreneur may devote the advertising budget to direct mail pieces such as brochures, circulars, catalogs, or sales letters to potential customers.

New businesses would do well to consult with trade associations to determine the percentage of annual revenues normally spent on advertising. Suppliers can also be helpful, as they work with many businesses similar to the one the entrepreneur is planning.

Step 2 Plan and Schedule Advertising Once the advertising budget has been calculated, a plan should be developed. Working with the media specialists mentioned above, you should plan and schedule actual advertising. One key to successful advertising is consistency. It is recommended that you follow an advertising calendar laid out 6 to 12 months in advance that assures your business of regular, consistent exposure. The advertising expenditures for a retail store will ordinarily be higher for the holiday selling season, but advertising should also be scheduled for smaller events, such as a Labor Day sale, back-to-school events, white sales, Valentine's Day specials, and so on, that occur throughout the year (Figure 5-7).

Step 3 Make Decisions about Sales Promotions

Entrepreneurs should make decisions about sales promotions well in advance of the planned opening of the business. For example, if you decide to use coupons as

Dates To Remember	
JANUARY	JULY
13-16 White Sale	14-15 Sidewalk Sale
20-21 Sidewalk Sale	
FEBRUARY	AUGUST
14- Valentine	15-30 Back to School Promotion
20- President's Day Sale	
MARCH	SEPTEMBER
17- St. Pat Promotion	10- Moonlight Madness Sale
15-24 Easter Promotion	
APRIL	OCTOBER
8- Moonlight Madness Sale	9- Columbus Day Sale
19- Anniversary Sale	31- Halloween
MAY	NOVEMBER
20- Mother's Day	20- Launch Xmas Program
24- Launch Wedding Promotion	23- Thanksgiving
	30- Pre-Xmas Sale
JUNE	DECEMBER
10- Bridal Fashion Show	7- Xmas Open House
19- Father's Day	26- After Xmas Sale



Small Business Technology

Marketing web sites were originally listed on search engines according to how their content related to the subject being searched. But small e-commerce companies can no longer count on this exposure and have had to turn to "pay per hit" network support services. The service arranges for search engine listings and charges the company a fee (10¢ to \$2 or more per hit) each time a potential customer clicks on its web site. The goal of most companies is to be listed among the top three, on the first page of a search listing.

FIGURE 5-7

Advertising Calendar

promotional tools, you must design the coupons (or have them designed), contact printers to obtain quotes for the work, select a printer, order the coupons, and distribute them in time for the opening. This process can take weeks, even months, so planning is imperative for any promotional event your business sponsors during the opening or after it is well established. A grand opening is considered a major promotional event that must be planned months in advance.

Step 4 Decide How Personal Selling Will Be Handled Many decisions have to be made concerning personal selling, such as whether to hire salespeople, how many to hire, when to hire them, how to compensate them, and how to train them. These decisions and others should be made and implemented long before the business is open and ready for customers.

Step 5 Create Visual Merchandising If the new business is retail, visual merchandising will set the tone for the enterprise. The store owner cannot wait until the merchandise arrives. Decisions have to be made much earlier so that supplies and props can be purchased or constructed. If the entrepreneur is a manufacturer or wholesaler and plans to display his products at a trade show, it may be necessary to have a display backdrop customized, which takes considerable time.

Step 6 Develop a Strategies Calendar In addition to an advertising calendar, a more inclusive strategies calendar should be developed. A strategies calendar, such as the one in Figure 5-8, displays all marketing activities and their implementation strategies. It is a valuable tool that should be continuously updated as plans are developed and changed.

FIGURE 5-8

Strategies Calendar

Strategy	Begin Planning	Complete Planning	Implement Plan	Strategy Complete
1. Christmas open house	Sept. 1	Dec. 1	Dec. 10–12	3-day event—food, entertainment, men's evening Dec. 11
2. Valentine's Day contest	Jan. 2	Jan. 19	Jan. 20	Announce winner, award prize
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				

Small Business Marketing Guidelines

The entrepreneur faces many challenges in defining the marketing plan, the primary one being less capital than is available to larger businesses. It takes creativity to compete and a certain amount of aggressiveness to get noticed. The best strategy is to use the advantage of knowing your customer better. In his book *Guerilla Marketing*, Arthur Levinson suggests that small business marketers

- Invest time, energy, and imagination, not just money
- Measure their success by making profits, not sales
- Use good sense to make up for experience
- Focus on excellence, not diversification
- Place emphasis on making larger transactions with existing customers and referrals, not just on adding new customers
- Use a combination of marketing strategies instead of just sticking to one that appears to work
- Look for free ways to promote the business
- Keep track of the number of relationships they establish, not just the number of sales
- Find ways to add drama to their promotional activities and products in order to get the customer's attention
- Invite their customers to get involved
- Communicate in a believable and clear manner

The marketing challenge is an exciting part of being an entrepreneur. Unit III will describe specific tools for taking on the competition. It is enough for now to understand the importance of creating a well-defined plan that will guide the business and provide the momentum for future growth. No business can survive without an exciting marketing concept in today's competitive marketplace.



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Chapter Review

Ship in a BOTTLE

Looking for the Target Market



Fred realized that his initial visits to stores, the trial web site, and the numerous direct mail letters he had sent out were the elements of a market research study. He had taken careful notes as he proceeded. The results thus far:

35 stores visited, 8 sales: 5 to nautical gift shops, 2 to a museum gift store, and 1 to a general gift store.

50 letters with product photos mailed: 20 to nautical-theme gift stores, 10 to nautical museum gift stores, 10 to general gift and souvenir stores, and 10 to seafood restaurants. 12 responses for more information were returned: 8 from nautical-theme gift stores, 2 from museum stores, 2 from gift stores, and none from the restaurants.

Although he realized that these limited results were far from conclusive, a trend was starting to show. Certainly nautical gift shops were very interested, particularly in coastal towns. Museum gift stores showed promise and needed to be researched further. Gift shops were potential buyers, but he would have to determine what type of gift store would have the greatest interest. Using ships-in-bottles as decorations or retail items had apparently not appealed to the seafood restaurants. Fred also had some other ideas he wanted to investigate.

The Internet results at this point were not consistent, nor did they show much of a pattern. The first 50 purchases were about equally divided between people buying gifts and people buying for themselves. The average purchase price was approximately \$75, which pleased Fred. Buyers were happy to answer his questions about how they found the site, whom they were purchasing for, and what other items they were seeking. All were delighted to find his unique product, as they had been searching for it without success for some time.

At this point Fred was quite optimistic. If he could find a way to contact the right type of gift shops, design and produce a professional-looking brochure for direct mail, and get noticed on the Internet, he was sure the business would be successful. He needed to draw up a marketing plan that would help him accomplish these goals. He hoped the upcoming gift trade show would teach him more about the wholesale gift market and give him a sense of the best target for his marketing emphasis.

Fred felt he had learned enough to design an effective product brochure. He met with a graphics design expert, Kiki Pollard, and discussed ideas for product layout and photos. Two weeks later Kiki presented a 3.5 x 8.5-inch triple-fold brochure that showed over 50 models in various sizes. It was attractive and would fit in a standard-size mailing envelope, which was important for controlling mailing costs. Kiki would design two price-list inserts (one wholesale, one retail) so that the one brochure could be used for both intended markets. It was agreed that an initial run of 1,000 would be produced at a cost of \$2,500, plus a \$500 fee for Kiki's work. The brochure would be completed in time to distribute at the gift show the following month.

The goal of getting properly launched and listed on the Internet was an area in which Fred did not feel completely comfortable. Although he was not computer illiterate, he did not feel he could design a web site that would attract potential customers and stand up to the competition. He arranged an appointment with Dick Crooks, a professional webmaster. Dick reviewed the temporary website that Johann and Fred had initially put together and went to work redesigning it into a more customer-friendly site. He reshot many of the photos, added automatic enlarge and

continued

order clicks, listed easy-to-use contact information, and developed a great-looking home page. The total design and launch fee was \$3,000. Included was the task of making sure that the various web services would show “Ship in a Bottle” in their information source list. The marketing plan was starting to take shape. Fred believed it would take six months and at least two gift-show exhibits before he could develop a complete and consistent plan.

Think Critically

1. Develop a preliminary customer profile of Fred’s target market.
2. What other primary and secondary sources of data can Fred pursue?
3. What other market possibilities should Fred investigate?

Summary

Before entrepreneurs can begin developing a marketing plan, they must understand the marketing concept. They should follow the six-step approach to market research: defining the question, determining what data is needed, collecting the data, analyzing the data, implementing the data, and evaluating actions. With the data they have collected, they can then segment the market into manageable groups of potential consumers with similar characteristics and needs. Additional information allows entrepreneurs to target a very specialized group of customers. The final step is creating a customer profile that describes the ideal customer for the planned business.

For effective planning, decisions must be made regarding the marketing mix, or the four P’s: product, price, place, and promotion. Successful entrepreneurs know the product, understand the role of the price, select an effective channel of distribution to make sure the product is in the right place at the right time, and implement an effective promotion plan. The promotion part of the mix includes advertising, sales promotion, personal selling, and public relations.

Once the marketing plan is developed, the entrepreneur has a number of marketing strategies to implement: establishing an advertising budget, planning and scheduling advertising, creating a sales promotion program, deciding how to handle personal selling, creating visual merchandising, and developing a strategies calendar.

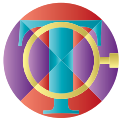
The ultimate goal of the business is to offer a product or service to potential customers at a convenient location and at an affordable price, so the business will make a profit. If all this happens, both the consumer and the business owner will be satisfied.

As each strategy is completed, the dream of being a successful business owner is one step closer to becoming a reality.

Chapter Review

A Case in POINT

Selecting a Personal Shopper



Ingrid Harrison plans to open a business in three months. Her business will offer what she considers a needed service in her community: customized shopping for senior citizens who wish to avoid the inconvenience of going to the grocery store or are simply unable to go themselves.

After researching her community, Ingrid has collected the following data:

Twenty percent of the city's population are senior citizens. The current city population is 115,000.

The average annual income of each senior citizen household is \$25,000.

Most senior citizens (80 percent) live in the same section of town, the south side, because of the concentration of retirement housing there.

Although Ingrid knows that she wants to sell her services as a personal shopper, she hasn't decided what specific services senior citizens would be willing to buy.

Think Critically

1. Do you think Ingrid's idea will work? Why or why not?
2. What would you suggest Ingrid do to determine the specific services she should offer?
3. What other demographic and psychographic information might be useful to Ingrid in developing her marketing plan?

Vocabulary Builder

Write a brief definition of each word or phrase.

- | | |
|-------------------------|-----------------------------|
| 1. advertising | 2. channels of distribution |
| 3. cognitive dissonance | 4. customer profile |
| 5. economies of scale | 6. marketing concept |
| 7. marketing mix | 8. marketing research |
| 9. market segmentation | 10. niche |
| 11. primary data | 12. product mix |
| 13. promotion | 14. promotional mix |
| 15. psychographics | 16. public relations |
| 17. sales promotion | 18. secondary data |
| 19. target market | 20. visual merchandising |

Review the Concepts

21. Describe the marketing concept.
22. What are the six steps of marketing research?
23. What is the difference between primary and secondary data?
24. Describe the four P's of the marketing mix.
25. What is meant by communication channel "noise" factors?
26. What are the steps of the selling process?

Critical Thinking

27. Explain why correctly identifying a business's target market is essential to writing an accurate business plan.
28. Discuss the various elements of a demographic study and how they can be applied to determining if a market is suitable for a new business.
29. How is it possible to add middlemen to the distribution channel and at the same time increase the profit margin?
30. What should be included in a customer profile?
31. Create a 12-month strategies calendar for a new bridal shop.

Project

Build Your Business Plan



At this point in your business plan it is time to start building a marketing plan. It should start with a list of information that you will need to collect in order to do market research.

You should also design a preliminary market strategies calendar, taking into consideration all parts of the marketing mix.

1. Describe a demographic study of the market you are researching.
2. Explain how each of the four P's relates to your intended business.
3. Create a strategic marketing and advertising calendar for the first 12 months of the business.
4. Develop an approximate budget for your grand opening event and your annual advertising expenditures.

Many of these steps will be defined in more detail later on in the course. However, it is important at this point to lay out a preliminary plan of action.