



PROFIT

promoting regional opportunities
for investment and trade

Knowing your market

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Knowing your market¹

1. Introduction

Arguably, the most important function of any business is marketing. The management guru, Peter Drucker, said a long time ago that the purpose of business is to create a customer and thus a business has only two basic functions: marketing and innovation. To many people marketing just means selling, but it is far more than that. Making a product or being able to provide a service is relatively straightforward. The hard part is ensuring that your potential customers are aware that you exist. It is essential, therefore, to prepare a detailed marketing plan – a plan of action. You need to define your overall marketing objectives, you need to identify your target market and you need to know what “marketing mix” you will use.

Marketing is a business discipline. The Institute of Marketing in the UK defines marketing as “the management process responsible for identifying, anticipating and satisfying customer requirements profitably”. That sounds rather a mouthful; 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.

2. Be market led

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 what needs customers are seeking to fulfil when they buy a particular product or service.

The ideal starting point is to define quite precisely the market which you are targeting. A small off-licence may only service the needs of a few dozen streets. A specialist restaurant

¹ This factsheet is based on material originally published in Sales and Marketing, a Business Action Pocketbook edited by David Irwin, copyright Project North East, 1998, and used with permission.

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 biros.

You may eventually decide to sell to different markets. For example, a retail business can service a local area through the shop and a national area by mail order or e-commerce website. A small manufacturing business could branch out into exporting.

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 Ho Chi Minh.

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.

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. 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. Usually customers can be profiled by criteria such as age, occupation, home ownership, etc.

Careful segmentation will help you define your market accurately. But targeting based on segmentation alone is not enough for a business to be successful. Businesses must offer a top-quality product or 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.

You will need to decide how to reach your customers, through advertising, point of sale material, etc. This should all be set out in a marketing plan.

3. The marketing plan

Careful planning increases the chances of successfully accomplishing what you set out to achieve. The principles of good planning can be applied to almost any task and remain the same irrespective of the task. However, the outcome of planning, the plan, can differ according to the nature and purpose of the task.

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 decide on the positioning strategy you want to adopt. This is generally concerned with how you differentiate your products and services from those of your competitors. The next step is to determine the impact of your targeting and positioning decisions on your strategy for the 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.

Figure 1: Preparing a marketing plan

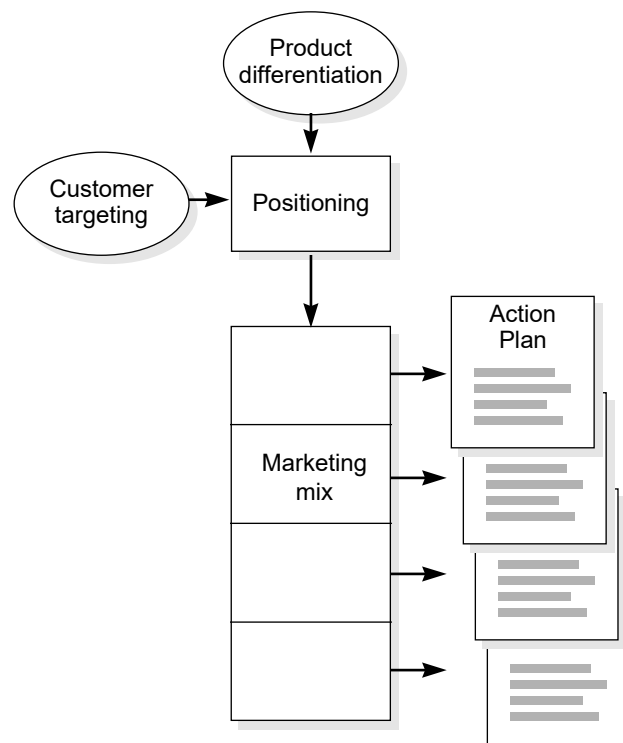


Figure 1 shows how the core elements of a marketing plan fit together. They are:

- Description of the products and/or 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. It may be helpful to incorporate here, or possibly as a separate section, a description and analysis of your chosen market including market size, market structure, competitors and market trends.

- Definition of your target customers including an explanation of why you believe they will buy the products/services - the benefits they seek and the reason why they are likely to choose your products in preference to those of your competitors.
- A description of 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 - and the costs involved.
- Summary action plan timetable.

Just as for any planning exercise, you will also need to cost your plans and produce a set of financial projections to test the viability of the plan and enable you to assess the sensitivity of your plan to fluctuations in sales volumes, prices and critical cost areas.

4. Market positioning

The final outcome of your marketing plan very much depends on your approach to customer targeting and how you decide to position your products or services in the marketplace.

'Positioning' is a term used to refer to how you want customers to think of your product or 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 position for the product defined by the target customer group and the means by which the product is differentiated from others.

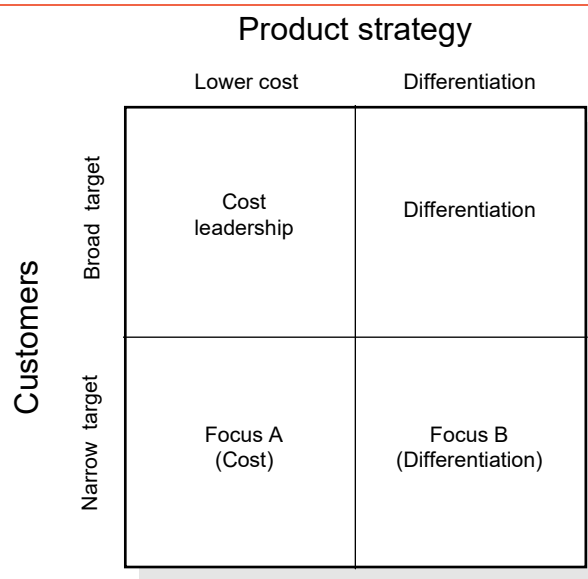
Once you have a feel for your target market and what it is that sets your product or service apart, you can consider which one of what Michael Porter of the Harvard Business School calls generic strategies you intend to adopt.

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.

In adopting a cost leadership approach a firm aims for high volume production competing on price. The intention is to attain market leadership by undercutting all competitors – albeit marginally. That is not to suggest that the product is inferior. To ensure that customers will buy the product it must be of acceptable quality – ideally as good as those of its competitors.

Figure 2: Marketing strategy



Successful use of 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. This challenge is particularly true of smaller businesses.

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, however, choose to focus on a particular niche market, product or service specifically adapted to suit the needs of the chosen niche.

Businesses which 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.

Look, for example, at the market for personal computers. Many manufacturers attempted to emulate the IBM PC. Two stood out, offering a premium product at a premium price: Compaq and Apple. Apple further differentiated themselves by not even offering a compatible machine, instead focusing on specific market segments, such as educational markets and design markets.

Compaq makes an interesting case study. It started only in 1982 and, by 1988, had achieved annual sales of \$2bn selling high quality, premium priced computers. In 1991 sales fell 9 per cent and net profit dropped by 71 per cent. Compaq then changed strategy to one of cost leadership, ruthlessly cutting its costs and its prices. For 1997, sales were up, again, reaching nearly \$25bn with net profit of over \$2bn. Compaq's biggest competitors became Dell and Gateway 2000, both of whom sold direct to customers eliminating dealer costs. Compaq quickly went bust! The danger, for small businesses at least, in pursuing a cost leadership strategy is that customers tend to stay only as long as you maintain your price advantage. It is very difficult to build customer loyalty with a cost leadership strategy

5. Choosing your positioning

Many markets can have different companies each adopting one of the strategies and successfully coexisting. 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.

6. Marketing objectives

Once you are clear about your target market and about the position you propose to adopt in the market 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 toys and games for children under 12 years old.
- To provide an environmentally friendly range of packaging materials for use in the food industry.

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

- be quantifiable - for example: to achieve sales turnover in the first year of \$100,000; to achieve profitability of 10% return on sales by year three; and, to achieve market share of 10% 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.

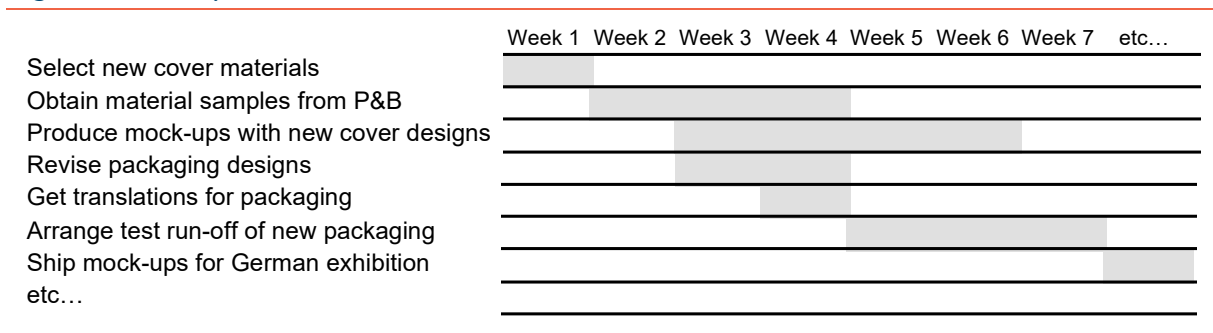
7. Action plan

By stating how you intend to deal with each of the 4Ps you will have begun to create a set of task objectives. For example, if you opted for a cost focus positioning you might note under 'product' that, amongst other things, there is a need to add a particularly important feature to your product and also reduce the cost of some aspect of the production process. You may already have some ideas of the way you will tackle the cost reduction point in which case your task objectives stemming from this point will be to investigate the viability of your ideas, test the effect of introducing them and then implement the modified procedures. If you have yet to work out where savings might be made, your task objectives could be to research comparable production processes and then review your process to determine where it may be possible to reduce costs - at which point your objectives carry on with investigating the validity of the ideas, etc. Similarly, with the added feature, your task objectives would be to research customer preferences for the way the feature should be incorporated, produce modified designs to evaluate the effect on product functionality, appearance, etc, build prototypes to conduct final tests and then develop modified production procedures.

Once you are sure that you have covered all of the necessary points you will be in a position to produce your action plan. For each of the points you need to allocate an appropriate amount of time to fulfil each of the task objectives and set a target deadline. This will help you work out how you can implement the plan as quickly as possible (taking account of the need to keep normal day-to-day operations running smoothly) and will also provide a basis for monitoring progress. Where more than one person will be involved in implementing the action plan, you should endeavour to allocate responsibility for each task to one person - usually the person who has the knowledge, skills and authority to manage the particular task - and agree how they will report back.

You are likely to find that, as with any other form of project planning, there will be some tasks where it either makes sense to complete one before another or one task cannot be started until another has been completed or progressed past a certain point. For instance, in the example used above it would be sensible to make sure that the impact on production procedures of adding the extra feature is fully understood before looking at possible changes to production processes for cost reduction. When you have worked out all aspects of your action plan, you may find it helpful to summarise it in the form of a Gantt chart - which sets out all the necessary tasks and the expected timescales for each.

Figure 3: Action plan



8. Future developments

Whatever the stage of your business development, looking at the future may be helpful in defining your marketing objectives and your marketing mix.

The most common objectives are usually to achieve sales and profitability targets in year one and to increase sales and profitability levels in subsequent years.

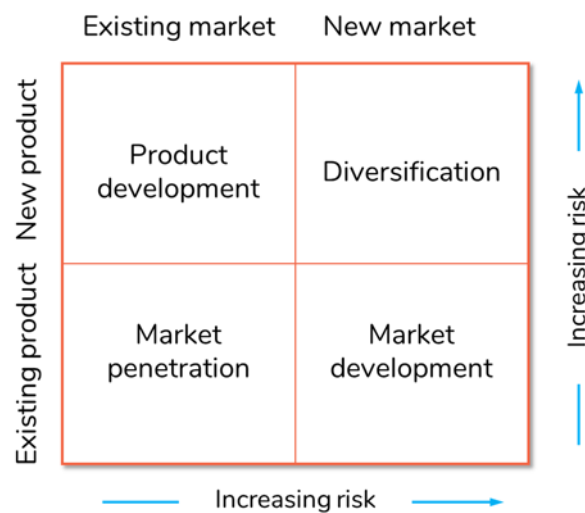
Bearing this in mind, how can you develop your product, service or customer groups to achieve this business growth?

Figure 4 below shows the four possible ways of achieving growth.

8.1 Market penetration

This is where you aim to increase sales in current markets by increased marketing effort; that is, encourage existing customers to buy more by advertising, publicity, special promotions, etc. You can also attract competitors' customers by attractive pricing, aggressive advertising, seeking extra distribution channels, etc.

Figure 4: Product market matrix



8.2 Market development

This is where you introduce current products to new markets; for example, into different regions, countries or a new market segment. This can be achieved by seeking different distribution channels, different media advertising, or offering product ventures that appeal to each new market segment; for example, financial software for banks repackaged for accountants.

8.3 Product development

This provides offering improved products for existing markets, such as:

- Adding new features, highlighting other features or removing some altogether.

- Producing new quality ranges, for example, standard, extra and super versions.
- Introducing new models or sizes, for example, mini, midi, maxi.
- Or introducing new, but probably related, products also for existing markets.

8.4 Diversification

This involves identifying opportunities for new products in new markets such as:

- Adding new products which are technologically related to existing products and will appeal to new customers.
- Adding new products which are unrelated to your existing products and might appeal to new customers.

9. Conclusion

Producing a marketing plan is crucial. It is the point at which your preparation work is combined to create an action plan with the aim of taking those first important steps towards establishing a presence in your new market. Clearly, care and attention to detail is vital if you are to ensure that you are fully prepared. Producing a marketing plan is a fairly lengthy and detailed process and should not be rushed or treated half-heartedly if the risk of making expensive mistakes is to be avoided.

Nonetheless, you should retain a reasonable degree of flexibility within your plan. It is impossible at this stage to foresee all possible outcomes and, as experience will eventually confirm, there are always those customers who represent a worthwhile opportunity but unexpectedly want something to be slightly different. This is where, as a more adaptable and responsive small firm, you have an advantage. With the ability to adapt and respond quickly you will be in a position to grasp such opportunities where others may miss out.

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