Marketing

What Needs to be Done

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Marketing is the transferring of goods from producers to consumers. Marketing a new product may seem simple, but actually finding consumers to buy the product and getting it to them requires marketing managers to overcome many hurdles. Some of these hurdles, such as the market structure, cannot be changed but must be understood; others simply require time and hard work to overcome.

One of the first issues managers or owners must decide is which area is best suited to their interests, experiences and expertise:

Production - Production is developing new products or modifying existing ones, organizing production schedules, and keeping equipment operational. It includes buying decisions about equipment, whether to buy new or used, and what equipment is actually needed to produce the products.

Marketing - Marketing is collecting information and analyzing alternative market outlets; developing different product forms; pricing products to compete in the marketplace; deciding the scope of the proposed market area; and meeting consumers' needs at the right prices.

Procurement - Procurement is contracting with sellers of inputs, maintaining an adequate supply for production, and scheduling deliveries to the local plant.

Labor management - Labor management is hiring and supervising employees to obtain optimum production and maintaining good working relations with them.

It will be very difficult for one person to satisfactorily do everything, such as making decisions concerning production, marketing, procurement, and labor management. Without concerted effort and attention to all details, the chances of success are lowered. A management decision to organize production and separate marketing activities for each new product is often the difference between success and failure.

The marketing manager should concentrate on marketing plans that will best serve the company and reach the most consumers because these are the centerpieces of the marketing process. A good marketing plan should identify all problems or hurdles to overcome and to collect the kind of information needed to solve them.

Marketing Structure

A successful study of the marketing structure must include the following.

A marketing plan specific to the product, the market share's goal, and a market cost feasibility analysis should be formulated. This information should be used to decide production practices, changes in the products, if needed, and where products should be sold for the greatest return.

An assessment of the current business environment also is required. Although the business environment of a particular area may be beyond the control of local managers, it needs to be understood because it often influences the type of marketing organization required for success.

An understanding of customer requirements, including the following, is needed.

Market territory - The physical locations where the product is going to be sold must be decided. It must be determined whether it is local, national, or some combination in between.

Population concentrations - There has to be enough people within a market who will buy these products on a timely basis. It is easier to sell a given level of production throughout the year in urban areas where there are many different types of consumers. In rural areas, a greater percentage of the people will have to buy the product in order to sell the same amount. Another major factor in selling products is how many times a year the product will be purchased: once a day, week, month, or year. The fewer times a product is purchased by a specific consumer per year, the more people that need to purchase it.

Income levels - Different customers have different income levels and different tastes and preferences for products and whether they are essential or conspicuous consumption.

Number of market outlets - The number of market outlets is the number of places consumers can purchase the product, whether in one large store, many small ones, roadside stands, or mail order.

Participants in the Marketing Process

There are many firms involved in the marketing process. This section focuses on who is involved. There are a variety of middlemen and organizations who specialize in performing various marketing functions. There are no limits as to how they are organized. There are several types of middlemen:

Wholesalers - Wholesalers sell to retailers, other wholesalers and industrial users but do not sell in significant amounts to ultimate consumers. There are two main kinds of wholesalers.

• Agent wholesalers - Agent wholesalers can act as representatives of their clients. They also can provide access to market territories that would be available only if the producer expended additional time and cost. This activity requires a great deal of specialization, and they charge fees for these services. For this fee, however, they can help locate alternative buyers, locations, prices, products, and various retail market outlets. In addition, some may specialize in a certain kind of product, in different market locations, or in a large number of different products.

• Merchant wholesalers - Merchant wholesalers buy and sell for their own gain based on their knowledge of the market situation. For example, they buy directly from processors and sell products to retailers, other wholesalers, and industrial users. They usually specialize in similar types of products in which they have storage and transportation investments.

Brokers - Brokers act only as representatives for their clients. Brokers' incomes are from fees and commissions and are payments for their knowledge of market outlets and contacts. Brokers do not assume physical control of the products. They follow directions of each principal and have less discretionary power in price negotiation.

Commission people - Commission people usually control the physical handling of the product, moving it from one location to another. They arrange for the terms of sale and collect money from the buyer for the sale of the products. They deduct predetermined fees and send the balance to the processor.

Speculative middlemen - Speculative middlemen take title to the products. They buy products based on their knowledge of the possibility of selling at a higher price. Their major goal is to make a profit from price differences in various locations.

Retailers - Retailers buy from many processors and wholesalers to develop a product mix that will attract consumers to their stores. They rely on consistent quality and availability of products. They buy and sell for their own gain.

Managers need to decide what kind of a market territory they want to serve and how they can use any or all of the participants in the marketing process. Their selection will depend on different population concentrations, income levels, number of competitive products, and the number of market outlets. All these should be used to develop the type of market organization that will best serve consumers and sell the product. If these data are too difficult to personally collect, they can be purchased from various marketing consultants and middlemen.

Pitfalls to Avoid When Devising a Marketing Plan

Care must be taken when devising a marketing plan. The buying public, unfortunately, is very choosy, and producers need to understand the pitfalls of producing too few or too many products.

Surplus - Too many products located at a given price in a certain market location are called surplus and will lower income potential. Consumers may consider buying the surplus at a lower "sale" price. This is a signal to producers to send fewer products to that location.

Shortage - There is a shortage when consumers want to purchase more products than are available at specific locations. When this happens, consumers who want the products are usually willing to pay higher prices to get them. This will result in local retail managers offering higher prices to wholesalers to get additional volume. These additional prices are offered to processors and is a signal to move more products to that location. This information is valuable. Information from all of the different locations should be combined to decide whether or not to expand production.

Organizing to Sell New Products

When selling new products, managers are faced with problem areas that are unique for each product. Products have to be delivered to locations where consumers will be able to buy them. For some products this is very complicated, but for others the marketing process is fairly straightforward. In any case, managers should gather the kind of information that is needed to fully understand and be able to choose the most profitable alternative. To start this process, managers must have enough information in all of the following problem areas.

Consumers - Convincing Them to Buy

Identify consumers - Who will most likely buy the product, how often will they buy it, what price they are willing to pay, and where will they be buying it?

Consumers have specific wants and needs. Their incomes vary from high to middle or low. They are given choices of thousands of products, from luxury items to basic necessities. They have many different traditions and tastes, ranging from ethnic to generic products. Consumers affect production decisions every day.

Consumers are the final buyers and users of products. The intent of any business is to make and sell a product. The manager must do the following.

- Make it in the form that consumers want.
- Make it when consumers want it.
- Sell it in places where consumers want it.
- Sell it at prices consumers are willing to pay.

Managers have to get market information in order to make the following day-to-day decisions.

- What quantity of a product are consumers willing to purchase?
- Who is making those products, and who is competing for those consumers?
- What prices are consumers willing to pay?
- What is the speed with which products and information travel through the channels of distribution?
- How long does it take for a price increase to reach the producer?
- Based on this information, should production be increased or decreased?

Food Ingredients - Availability and Seasonality

Ingredients are one of the more important factors in maintaining a consistent quality, especially in food products. The producer must know where to locate ingredients at different times of the year, especially if they are seasonal. Proper storage and handling should be solved as well as transportation and packaging. Costs of ingredients that change frequently can create problems when estimating production costs. This may require contracting for future delivery (discussed later). Seasonality of some produce will require purchases in different locations during the year. Products that require special handling, such as fresh meat or vegetables, present a different set of problems and cost factors. Also, shelf life of ingredients needs to be considered.

One very important thing should be noted here. The only way to maintain consistent-quality products is to buy consistent-quality ingredients. This cannot be emphasized enough. People might be willing to buy the product once, and if it is of good quality, they will continue to buy it. However, if they notice that there is a difference in quality each time they purchase it, they will cease to buy the product, and it will be almost impossible to get them to buy the product again.

Alternative Retail Outlets

There are many ways to distribute products once they have been produced. These marketing channels need to be set up before production, not after. These include large chain stores, mail-order sales, neighborhood stores, roadside stands, and door-to-door sales. Alternative retail outlets can help producers to reach a specific consumer group with income levels suitable to the product, ethnic preferences that matches the products, and life-styles that are served by the products. Different retail outlets should be considered that will be able to sell products.

Large chain stores - These stores can provide an opportunity for a larger number of consumers than a local store. They offer thousands of choices of different products from which consumers must decide to spend their money. Large chain stores usually require large quantities of a product delivered at specific times to specific places at predetermined prices. Getting shelf space can require substantial fees.

Neighborhood stores - These stores will often work with local producers if the managers feel the products will be accepted by their clientele. Each store has developed a clientele unique to that store, and new products will have to be a part of that image.

Specialty stores - Specialty stores are often single-line stores or discount houses that, like neighborhood stores, have a unique clientele. Again, the products must match the clientele and image of the specialty store.

Roadside stands - A roadside stand may be an alternative for fresh products or other seasonal products, such as jams, jellies, or pickles. These are open for part of the year at a time when consumers are willing to drive to a specific stand to buy them.

Mail-order sales - When using mail-order outlets, sales volume can be controlled by the number and type of catalogs sent. When using mail-order catalogs, it is important to know the number distributed and the characteristics of the readers. If, for example, 400,000 people receive the catalog, and 1 percent of them order the product, that means there will be 4,000 orders. If 5 percent of them order the product, there will be 20,000 orders. Producers need to understand and be prepared for the potential volume of mail orders. Conversely, there could be very few sales, and there could be products left over.

Government contracts - Government contracts cover such outlets as prisons, military bases, and government cafeterias. Contracts with various government purchasing agencies can provide sales opportunities as long as government specifications are met.

When formulating distribution plans, be sure to inquire about terms of sales. Some large discount chains and government procurers do not pay within 30 days. In fact, sometimes payment is not received for at least 60 days. Marketers must take this into consideration when planning cash flow statements and making marketing plans.

Test Marketing

Regardless of the outlet chosen, test marketing a product in potential sales areas is essential. This is especially true if the product is new or different from what is already on the market. Producers must work with retail managers to decide how much advertising and promotion will be required to convince consumers to by their products.

A good way to begin test marketing is to take samples to store managers and convince them the products will sell and make them money. Samples should be ready for consumers to test. Selling them at reduced prices or giving them away is a good way to entice consumers to try new products. It is important to seek immediate feedback about what consumers think of the products and any suggestions they may have for improvement.

When doing test marketing, it is important to determine how the products are competing with other brands. Count the number of competing brands in the stores. Buy some and compare them.

Do not forget that location within any store is very important. Certain locations have “higher traffic” than others. This means more consumers will see products in those areas and will be more likely to buy. The highest exposure for new products in stores is at the ends of the aisles or at the checkout counter. There is a preferred height on store shelves where people can see your product without looking up or down.

Advertising

Advertising is controlled communication about a product. Through symbols and language, it tells what a product or service can do for the consumer.

Advertising, when properly understood, is a powerful tool for management. It can be most effective with products that can be differentiated from similar products based on consumer-accepted quality differences. Consumer information is gathered by giving small samples to consumers in stores or retail businesses. This information can give a direct consumer response to a new product for that location.

Regardless of the quality of a product's advertising, it is important to remember a product has to compete on its own. Brand preference cannot be established if the product fails to meet consumer expectations. A well-developed overall advertising program can tell consumers what a product or service can do for them compared to similar products on the market. If consumers are convinced, they will buy the products.

"Business is built best which attracts the kind of customer and only the kind of customers it can best serve. Every business is qualified by its management's beliefs to serve a particular segment of the total market, and by reflecting its essential character, its advertising can most effectively reach this segment and keep it a long time." (Maynard)

Pricing Competitively

One question to ask is whether the product is priced similarly to other competing brands but above costs of production. For more information on this, see K-State Research and Extension bulletin *Economic Analysis of a New Business—Doing it Right*, MF-2184.

Once consumers have been identified, a retail outlet has been located and test marketing completed, producers need to determine at what price a product will sell and still be profitable. Price is the only means for generating income and profit for the producer. There is no one method of setting prices. It is imperative to keep in mind that costs of production do not determine the price of the product. Consumers are only interested in the lowest price they can get, and they do not care what it costs to produce the product.

If the consumer's desire for the product is great, set the price high enough to ration the available supply for sale. As production increases, prices may have to be lowered to sell additional products. However, do not lower prices below the cost of production. Always know your costs of production and never price your product below cost if the goal is to remain in business.

If the consumer's desire for the product is not great and if the product is in a competitive market, sales will depend on the success of convincing consumers to buy products for prices above total costs.

The marketing manager for a product must find a price that satisfies both consumers and producers. Consumers are always willing to pay lower prices for any product. Producers are always willing to offer products for sale at higher prices. A market price for long-term production is established when the price of any product is equal to or above the average total cost of production and at a price consumers will pay for it.

Frequency of Consumer Purchases

Frequency of consumer purchases is very important. Repeat purchases are the keys to a successful outlet selection. Not all products are purchased at the same frequency, and marketing managers need to understand how often consumers will be purchasing their products when determining production rate, transportation, storage, etc. The most common purchasing patterns are as follows.

Daily - Some products, such as milk, bread, and donuts, are usually purchased daily, meaning the producer will have to deliver the product frequently. These products are usually very perishable.

Weekly - These are generally products with a 3- to 6-week shelf lives. For these products, careful control of the production inventory will be necessary. A producer must have the ability and capacity to store products between deliveries.

Monthly - These require a larger consumer territory if the consumer only buys one item per month compared to one per week. Delivery will be less often and storage will have to be increased, either on the shelf or in the back room.

Seasonal - These are products that are generally associated with a specific growing season or holiday. These types of products are usually sold only during one time period each year.

Packaging

The purpose of a package is to protect the product from spoiling and keep it clean until it is opened by the consumer. Many producers overlook the importance of product packaging, but this is the first thing consumers see. When the package has an appeal they like, consumers are more likely to buy it. As long as the anticipated quality is there, the consumers will be satisfied. They will buy the product in the package they like and will not buy it in one they do not like even though the product is the same.

The consumer decides the size of package most suited to each product. The size and type of package will depend on knowing what the consumer will accept for each type of product. Consumers are more likely to buy smaller food packages that are used occasionally. They will buy large packages that are used frequently and in a relatively short time but are still safe to use during this period.

Most plant and animal products must be packaged appropriately to preserve the products, such as pickling, canning, smoking, cooking, drying, or freezing. The type of processing will determine the length of time the product can be safely used from the time it is processed until it is used.

Storage and Transportation of Food Products

Products must be stored from the time of processing until they are transported and sold to consumers. Various products require different types of storage and transportation facilities.

Storage and transportation are critical to the marketing process. Obviously, different products require different types of storage and transportation facilities. For example, frozen products should not be allowed to thaw anytime during the time of storage and transportation. Keeping the product frozen requires additional expense. Part of these costs also includes spoilage and breakage.

Fresh products have to move quickly to consumers. Dried products can remain in storage and be moved through different marketing channels at a slower pace without ruining the quality of the product. They can be shipped further to reach different consumer areas.

Regardless of the type of storage and transportation required for a product, it is imperative to maintain the same quality of the product from the time it leaves the processor until it reaches the consumer.

Plans must be made to store ingredients for processing and finished products until shipment. This is especially critical if you can buy large quantities of ingredients at lower prices.

Contracts

Contracts are legal obligations made between two or more business people for the sale and purchase of products. Major points in a contract spell out prices of the product, quality requirements, amount to be delivered, specific location and time of delivery. This ensures that buyers know when to expect the product and sellers know when and how much of the product has to be delivered at a specific time and place. Care should be taken when finalizing a sales contract that production will be able to provide the product as specified in the contract. The risks of change in price and volume are eliminated until the next contract is negotiated.

Whether completing a contract with buyers of products or sellers of inputs needed for processing, sound legal advice should be obtained to make these transactions simple to understand and clarify legal obligations of all parties involved.

Consumer Feedback

Consumer feedback involves having people try the product and then asking them their opinions of it. A first step would be to ask friends and neighbors for help, and to establish options for testing the new product.

It is vitally important to continue to seek consumer feedback as the product continues to sell. This process should be included in a marketing plan. Ask consumers the following questions.

- How do they view the product and company?
- Do they like the product?
- Will they buy it again?
- How soon?

This information should be gathered continuously in each location about the sales volume and changes in the competitors, life cycles of the product, new products, service to vendors, and competitors.

Remember that general information will provide general results, and detailed information will allow for more detailed analysis and more accurate results. Each manager has to decide what type of information is needed and how much to collect that will be most useful for the operation. The more producers know about customers, the better chance they have of satisfying them.

Summary

Creating a marketing plan takes a lot of hard work. The benefits of doing this work before you start to market your product, however, are immeasurable. This groundwork will make it much easier to borrow the necessary capital for starting a business. Because lenders are interested in accurate information about a potential investment, a well-done marketing plan demonstrates the management level for a company. If there is no plan, lenders will not look favorably on lending capital to someone who has no alternatives in mind for the future when changes occur.

A well-developed marketing plan demonstrating knowledge of production, how much capital will be required, cost of production, specific market location and an understanding of the consumers' purchasing activities will be beneficial in creating a profitable operation.

The most difficult part of developing a marketing plan is estimating total marketing costs. Each marketing organization uses labor, management, land, and capital resources in varying degrees of concentration. Each expenditure item should be included in a cost analysis. If any expenditure is not included in an analysis, it will be paid out of a private account, which could mislead the decision maker concerning total costs.

Various marketing functions will have different costs, depending on how much of each is needed to move products from the place of production to consumers. Each entrepreneur has to evaluate information using estimates of cost and the pricing system to decide to continue operation. When a firm is in operation for a longer period of time, these estimates can be based on actual expenditures, which are more accurate.

Total marketing costs per unit have to be paid by the consumer. The marketing system also has to be profitable for every marketing function and every stage along the system. Understanding the cost of each marketing function is necessary for every phase and has to be paid if all of the functions are to be continued. Consumers make final decisions about any product based on quality, price, disposable income, quantity, and price of substitute products.

By doing the research necessary to create a thorough marketing plan, a producer can more clearly understand the needs and demands of the consumer, can identify the best potential markets, and can find the most effective and efficient means to get their products to those markets. It is important to remember that a marketing plan is only as good as the information it contains. If correct data are used, the marketing plan will be accurate.

It is important to have a contingency fund available. This will provide a reserve in case any of the other estimates are incorrect. It will be impossible to accurately figure every item in the marketing plan, so this contingency fund provides extra cash in the start-up phase of your business. Of course, any money not needed in the contingency fund can be used for other purposes once the company is up and running.

By following these guidelines, producers will be well on their way to success!

References

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