MARKETING PLANNING (3.4)

(Chapter 20 - A Level 3.4)

Seeing as marketing decisions in a business can be expensive and have a huge impact on future success, these decisions need to be carefully planned and thought out.

A marketing plan is a detailed, fully researched report on marketing objectives and the marketing strategies that will be used to achieve these objectives.

Marketing objectives could include :
- maintaining market shares
- increasing sales in a niche market
- increasing sale of an existing product by using extension strategies etc.

The key contents of a marketing plan are :

■ **Purpose of the plan** - the 'mission' of the business, i.e preparing for launch of new product

■ **Where the firm is now** – situational analysis (strengths and weaknesses, potential competitors, market trends etc.)

■ **Marketing objectives -** where the firms wants to be, will help give clear focus and direction in helping figure out marketing strategies

■ **Marketing strategies proposed -** the ways in which the business intends to achieve it's set objectives, i.e finding new markets for existing products to increase market share

■ **The budget required** - amount of finance needed to implement the plan effectively etc.

■ **Executive summary and a time frame -** how long is the business giving itself to achieve its objectives

Potential benefits of a marketing plan :

✔ Is an important part of a business plan, helps new businesse**s convince investors to invest**
✔ Improves the quality of marketing decisions and **reduces risk** of these decisions failing
✔ **Provide direction and purpose** and encourages coordination between different departments

Potential limitations of a marketing plan :

✖ Detailed plans can be **time consuming and costly,** requiring a lot of extensive market research
✖ Fast-changing markets require **flexibility**, therefore all marketing plans must be adaptable

✖ Planning does **not always guarantee success** - it also requires effective management

Elasticity

We've already gone over the *price elasticity of demand* (covered in 3.3) which measures the responsiveness of demand for a product following a change in its *price*. However, the demand for a product can also be influenced by other factors apart from price, and the elasticity concept can also be used to measure these factors.

- Consumer income (measured with ***income elasticity***)
- Promotional spending (measured with ***promotional elasticity***)
- Price of related goods (measured with ***cross elasticity***)

Income elasticity of demand

Measures the responsiveness of demand for a product following a change in consumer income.

$$\text{Income Elasticity of Demand} = \frac{\text{Percentage Change in Quantity Demanded } (\Delta Q)}{\text{Percentage Change in Consumers Real Income } (\Delta I)}$$

Normal goods whose income elasticity of demand is between *0 and 1* (0.5 etc.) are typically referred to as necessity goods, which are products and services that consumers will buy regardless of changes in their income levels. (Water, gas, electricity.)

Inferior goods have a *negative* income elasticity of demand (-2 etc.); as consumers' income rises, they buy less inferior goods. As their income decreases, they buy more inferior goods in place of the luxury ones. An example is margarine, which is much cheaper than butter.

Luxury goods are a type of normal good with income elasticities of demand *more than one*. (3 etc.) Consumers will buy more luxury goods if their incomes rise, less if it falls. (jewelry, boats..)

Promotional elasticity of demand

Measures the responsiveness of demand for a product following a change in the amount spent on promoting it.

$$\textbf{PED Formula} = \frac{\textbf{\% Change in Quantity Demanded}}{\textbf{\% Change in Advertising Expenditure}}$$

A positive advertising elasticity (+2..) shows an increase in advertising leads to a rise in demand for the advertised goods or services. Companies want a positive PED because this proves their advertising efforts are successful, resulting in an increased demand for their products.

If the result is less than 1 but still positive (0.5 etc.), then demand is inelastic and there might be little point in increasing the amount spent on advertising, as the advertising isn't increasing or decreasing sales. This may be due to inefficient promotional activity, which can be adjusted.

If a number is negative, it means the advertising caused demand to decrease. This could be due to an ad being distasteful, or annoying - making people not want to buy the product.

Cross elasticity of demand

Measures the responsiveness of demand for a product following a change in the price of another product.

$$\text{Cross Price Elasticity of Demand Formula} = \frac{\text{Percent Change in a Quantity of Good A}}{\text{Percent Change in the Price of Good B}}$$

A positive cross elasticity of demand means that the demand for good A will increase as the price of good B goes up. This means that goods A and B are *good substitutes*. So if B gets more expensive, people are happy to switch to A. These are completely interchangeable, if the price of A goes up people will switch to B. A good example would be two different types of milk.

A negative cross elasticity of demand indicates that the demand for good A will decrease as the price of B goes up. This suggests that A and B are *complementary goods*, such as a printer and printer toner. If the price of the printer goes up, demand for it will drop. As a result of fewer printers being sold, less toner will also be sold.

Cautions of using elasticity results :

There are a few possible reasons why elasticity results may be unreliable :

- Often based on estimates - not necessarily accurate numbers
- Assumes that other factors don't also affect sales - quality etc.
- May only apply during a certain time period, information used may be outdated

New product development

New product development refers to the design, creation and marketing of new goods and services. (not always necessarily brand new and never done before, sometimes just products that have been adapted or given a unique selling point to set it apart from competitors products.)

New products attempt to satisfy consumer needs that have been identified through research by creating a new product. It is **expensive** (lots of research) but if successful, it can help **set you apart from competitors**, **spread risks** and **earn more profit** by creating something different.

Ideas for new products can come from a variety of sources, such as :

- **Companies** own research and development department
- **An adaptation** of another competitors idea (but not to the point its copyright)

- **Market research** (i.e focus groups, surveys etc.)
- **Employees ideas** (brainstorm sessions increase motivation and can help the business)

The new product development process :

1. **Generate ideas:** the firm brainstorms new product concepts, using customer suggestions, competitors' products, employees' ideas, sales department data and the information provided by the research and development department

2. **Select the best ideas for further research:** the firm decides which ideas to abandon and which to research further. If the product is too costly or may not sell well, it will be abandoned

3. **Concept development and testing -** What features should the product have? How will consumers react to it?

4. **Business analysis :** this research includes looking into forecast sales, size of market share, assessing costs, potential profits etc.

5. **Product testing :** by making a prototype of the new product, the operations department can see how the product can be manufactured, any problems arising from it and how to fix them. Computer simulations are usually used to produce 3D prototypes on screen

6. **Test launch:** the developed product is sold to one section of the market to see how well it sells, before producing more, and to identify what changes need to be made to increase sales. Today a lot of digital products like apps and software run beta versions, which is basically a market test

7. **Full launch of the product:** the product is launched to the entire market

The importance of research and development (R and D)

Research and development is the scientific research and technical development of new products and processes. It is essential to businesses in industries with high competition, as it helps them to remain on top.

The amount a business will spend on its R and D depends on a few factors - the size of the business, how much their competitors are spending, the objectives of the business, the nature of the industry and government policies (Gov. may provide tax incentives to support new ideas, they also give *patents*, a legal right granted for an invention that stops it from being replicated.)

Potential benefits of research development :

✔ Creates a progressive and forward looking image
✔ If unique selling point made, higher prices can be charged - thus more profits

Potential limitations of research development :

✖ Expensive and time consuming
✖ R and D doesn't guarantee success
✖ If new product isn't unique enough to

✔ Creates new products that help differentiate from competitors

patent, rivals can copy the idea and maybe do it better

Sales forecasting

Sales forecasting is the predicting of future sales levels and sales trends.
Businesses use forecasting to determine how to allocate their budgets or plan for anticipated expenses for an upcoming period of time. This is typically based on the projected demand for the goods and services they offer.

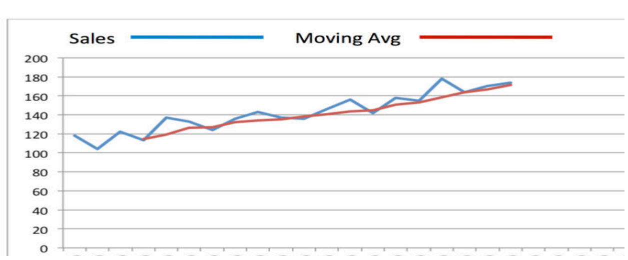
Potential benefits of sales forecasting include :
✔ **Reduces risk when making decisions** - for example, not launching a new luxury product when a recession is forecasted to reduce sales
✔ **Departments easily able to prepare resources** - for example, if an increase in sales is forecasted, they can order the necessary amount of materials
✔ **Helps plan market strategies** - for example, if sales are forecasted to decrease, they can decide how to best market the product to help prevent this

Sales forecasting methods :

- **Sales force composite** - a method of sales forecasting based on the predictions of sales made by the business's sales staff (quick and cheap but not always accurate.)
- **Jury of experts** - where specialists within a business (senior managers) will give predictions of future sales (more accurate than **SFC** but not always correct.)
- **Correlation** - Establishing links between things like prices, competitors promotional activities, weather, consumer income to make future predictions
- **Consumer surveys** - a form of market research that can be qualitative (what do you think of x) or quantitative (how many of you would buy x.)
- **Delphi method** - a process used to arrive at a group opinion or decision by surveying a panel of experts, using questionnaires (accurate, but can be expensive+time consuming)
- **Moving averages** - looks at data over a set period of time, then finds trends. It is pretty accurate in short-term, but can be quite complex to calculate

A more in depth look at moving averages :
A moving average takes a data series and "smoothes/straightens" the fluctuations in data to show an average. Moving averages are often calculated on a quarterly or weekly basis.

The blue line shows the actual quarterly sales figure. The red line shows the quarterly moving



average. This is calculated by adding the latest four quarters of sales (e.g. Q1 + Q2 + Q3 + Q4) and then dividing by four.

Marketing strategies

$$\text{Moving Average Formula} = \frac{C_1 + C_2 + C_3 \dots C_n}{N}$$

A **marketing strategy** is a plan to combine the right combination of the four elements of the marketing mix for a product to achieve its marketing objectives.

Marketing strategies should be :

- ★ **Focused on the marketing objectives -** if the key marketing objective is to increase consumer loyalty, a strategy of entering a new market in another country wouldn't be appropriate. Instead, a strategy of offering special customer promotions and additional aftercare services would be best suited to the objective of improving consumer relations
- ★ **Integrated with other departments -** this will help ensure that the necessary finance, people and production capacity are available to put the marketing strategy into operation
- ★ **Coordinated with all the elements of the marketing mix -** the product, price, promotion and place must all compliment each other to give consumers a consistent message about the product. For example, having a product that is promoted as luxurious, is expensive, and of good quality being sold at say, a convenience store, will give customers conflicting ideas about the product. Is it really a luxury product if you can find it at 7-11?

Legal Controls on Marketing

There are various laws that can affect marketing decisions on quality, price and the contents of advertisements. Breaking these laws can lead to fines or bad publicity.

- Laws that protect consumers from being sold **faulty and dangerous goods**
- Laws that prevent the firms from using **misleading information in advertising**
  Example: Volkswagen falsely advertised environmentally friendly diesel cars and were legally forced to pull all cars from the market
- laws that **protect consumers from being exploited** in industries where there is little or no competition, known as monopolizing.