Constructing a Basic Marketing Plan

CHAPTER 21

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Introduction

In this chapter, we provide an overview of how to construct a marketing plan. While this book contains theory and application, writing an actual marketing plan can be challenging. Many large corporations have existing tools for developing new products and brands (see chapters 12 and 13), but smaller organisations and start-ups need to construct their own plans from scratch.

A well-conceived marketing plan is crucial to the success of any business. The plan provides a strategy to underpin and develop new products, advertising, pricing and distribution. This chapter provides useful insights into the process.

This chapter examines how a marketing plan is developed, starting with an analysis of the business environment using tools such as Porter's Five Forces. We discuss the development of a strategic plan through segmentation, targeting and positioning of the product or service being marketed. We identify the various tactics used by marketers, also known as the 4Ps, and how the plan can be executed effectively. Finally, we examine how marketing plans can be measured in terms of goals and objectives.

Planning (diagnosis elements)

In preparing a marketing plan, it is essential to consider that a simple marketing plan is usually more effective than a complex one in achieving the required objectives. The first step in the process is to conduct a business situation analysis. What is happening in the wider world which could impact the marketing plan?

Analysis is the process of breaking down a problem into smaller and more manageable units for better understanding. A situation analysis is an important guide to devising an appropriate strategy and tactical plan. There are several common strategic-analysis models that can be used, such as market metrics, the Boston Consulting Group (BCG) Matrix or Porter's Five Forces.

Depending on the resources available, the consumer marketer should do some research as part of their situation analysis to gain a better understanding of the competitive position of the product or service.

We consider three diagnostic components in creating a marketing plan: a Porter's Five Forces of competitive position analysis; a SWOT (strengths, weaknesses, opportunities and threats) analysis; and a micro-/macro-environmental analysis. Each of these is summarised below and more details can be found in other chapters of this book.

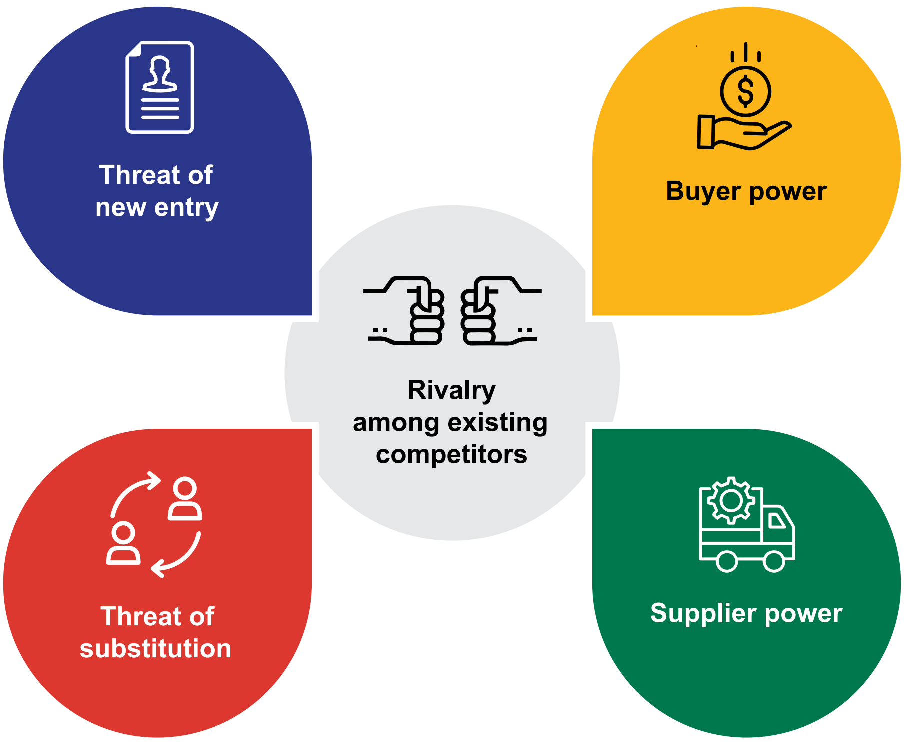
Competitive analysis

Understanding consumer behaviour is important, but it is not enough to guarantee a competitive edge. Companies need to ensure they render more value and satisfaction to their customers than their competitors do. Therefore, an organisation must constantly compare its marketing strategy to that of its closest competition. One of the most well-known competitor analysis tools used by companies is one developed by Harvard academic Michael E. Porter.

Porter's Five Forces of competitive position analysis

Porter's Five Forces of competitive position analysis was a tool developed in 1979 by Michael E. Porter at Harvard Business School to understand competitiveness and profitability. The Five Forces examine the potential challenges that may face the entrants, as illustrated in Figure 21.1 and expanded upon below.[1]

Figure 21.1 Porter's Five Forces that Shape Industry Competition[2]



Threat of new entrants

New entrants in the marketplace have a desire to gain market share, which leads to increased pricing pressure, cost, and the competing rate of investment. There may be an opportunity for market disruption: a profound change in the business landscape forcing organisations to undergo significant transformation rather than steady incremental changes. Disruption often comes in the form of unexpected new entrants (e.g., when Apple decided to go into the portable music player business dominated by brands like Sony). Low entry barriers to the market constitute a high threat of entry from new competitors. High barriers to entry (like expensive infrastructure) reduce the threat of new entrants. For example, the threat of new entrants in the subscription television space in South Africa has a high barrier to entry as MultiChoice owns exclusive rights to sport and much international content. This limits the capability of new entrants to compete.[3]

There are seven major barriers to entry that can be of benefit to existing competitors:

1. **Supply-side economies of scale:** The larger the volume of goods/services produced, the lower the unit cost, as fixed costs are spread over more units. New entrants would have to produce larger volumes/services or suffer a cost disadvantage.

2. **Demand-side benefits of scale:** Another name for these benefits is 'network effects'. The buyer's willingness to pay for a company's product increases with the number of other existing buyers. New entrants can only command a low price and acquire hesitant buyers, due to their limited track records.

3. **Customer switching costs:** These are fixed costs affecting buyers when they change suppliers, leading to increased time and money for retraining staff on new systems and specifications, as well as for data migration.

4. **Capital requirements:** A large initial capital investment is required by new entrants for facilities, customer credit, cash flow and communicating with potential customers through advertising.

5. **Incumbency advantages independent of size:** Due to the longevity of existing competitors compared to new entrants, established competitors may have cost and quality advantages due to preferential access to raw material sources, experience on efficient production methods and brand notoriety.

6. **Unequal access to distribution channels:** New entrants face barriers to accessing existing distribution channels, and need unique sales promotions or price differentiation, or to create their own through avenues like the internet, where the barriers to entry are too high.

7. **Restrictive government policy:** Some government policies can either aid or hinder new entrants and amplify or nullify other entry barriers.

Threat of substitute products or services

A substitute product or service that achieves a similar function to the industry standard through different means can be overlooked, as it may appear to be different from the industry product, for example, a DIY food package to create a restaurant meal or fast-food equivalent at a fraction of the cost. The threat level is high and has adverse effects on profitability, if the substitute product or service offers a better price to the industry product and if the buyer's switching cost is low. An example: subscription television (DSTV) in South Africa and free-to-air television is its closest competitor (SABC and eTV). However, the increase in international streaming services, such as Netflix and Amazon Prime, offer more substitution options for DSTV's existing tiered subscription model. DSTV's competitive advantage remains its acquisition of exclusive licensing agreements for the broadcasting of international sport for its television and online streaming platforms, DSTV Now and Showmax.[4]

Bargaining power of suppliers

Bargaining power is the relative power of parties in a situation to exert influence over each other. If both parties are on an equal footing in a debate, then they will have equal bargaining power.[5] Supplier groups are powerful when they are concentrated in the industry they sell to. Companies like Microsoft are the industry standard for PC software, and a shift in its prices can affect hardware makers in their overall pricing. In the airline industry, suppliers of key inputs, such as fuel and aircraft, have the bargaining power to influence the price of these inputs for airlines due to limited competition.[6]

In contrast, an organisation with many competing suppliers can possibly keep input costs lower than its competitors can.[7] An example in which supplier bargaining power is lower is vehicle manufacturers selling to rental companies. Unlike the airline industry, car rental agencies have a wide choice of potential suppliers.

Bargaining power of buyers

The opposite of powerful suppliers is powerful customers who have the ability to push prices down through demand for better quality or services or through playing competitors off against each other. The bargaining power of these customers differs if there are low switching costs between vendors. Switching costs are the costs that a consumer incurs as a result of changing brands, suppliers, or products. This increases in the event there are fewer buyers or high volume purchases with high fixed costs and low margins, leading to substantial discounting. The car rental company example above is an example of strong bargaining power in the hands of the buyer. Alternatively, an organisation that has many customers will have more power to charge higher prices.[8] For example, in the airline industry, the bargaining power of customers travelling to popular destinations is strong as they can choose flights from multiple other airlines going to the same destination. However, where airlines travel to niche destinations and offer unique direct flights, the buyer's power is reduced because customers do not have as many alternative options.[9]

Rivalry among existing competitors

Rivalry among existing competitors can manifest through price discounting, new product launches, advertising campaigns and service improvements. When there are too many competitors that are the same in size and power, slow industry growth leads to a fight for market share.

Price competition is likely to exist when products are relatively homogenous with low switching costs, or fixed costs are high with low margins. This competition can extend to perishable products such as fresh fruit, vegetables, and even technology, which can lead to a potential desire to reduce costs to move products swiftly.

Other considerations are product features, support services, delivery time and brand image. It is important to note that, when competitors compete in the same space, the likelihood of zero-sum competition (a clear winner and loser) is high. This is especially true if there is no market growth. In such a case, good segmentation can be a crucial differentiator for marketers.

SWOT analysis

Another tool employed by marketers to inform their marketing plans is called the SWOT analysis. A SWOT (strengths, weaknesses, opportunities and threats) analysis considers internal factors that can help or hinder the company reach its objectives and the external factors that can increase opportunities or threaten profitability. A SWOT analysis makes macro evaluations possible by focusing on the positive and negative aspects of the internal and external environments of the organisation.

A SWOT analysis can be applied to various analytical levels, such as the individual level, organisational level, national level or international level.[10]

Macro and micro environmental analysis

Though very broad, macro environment analysis examines external trends that may affect the business adversely, including demographic, economic, political, socio-cultural, technological, legal and environmental factors[11] (see Chapter 8). The micro-environment analysis looks at internal factors: customers, suppliers, resellers, competitors and the general public (see Chapter 4).

Research

For many businesses, it may be necessary to conduct research when developing their marketing plans. Research is a systemic and objective investigation of a subject or problem in order to discover relevant information or principles.[12] Research can analyse the size of a market, assist with segmentation and uncover consumer needs, perceptions and their buying behaviour. Market research methods vary and usually employ qualitative methods (which look at the quality of buyer attitudes and beliefs) or quantitative methods (which look at quantity through mass direct or indirect online, mall and telephone surveys, or personal interviews). Research can assist in understanding the target consumer market, identify changes in the market, improve market awareness, reduce risk and uncertainty and forecast market trends timeously for the potential and existing customer base[13] (see Chapter 18 for more detail on research).

Strategy elements

Once a diagnosis of the situational elements has been outlined in the marketing plan, the next phase is to outline the strategic elements. These can be done under the themes of marketing strategy (target market and positioning statement) and objectives.

Marketing strategy

As explained in Chapter 1, a marketing strategy needs to be formulated before tactics. This part of a marketing plan involves identifying target markets and narrowing down a positioning statement and possible branding strategy. The key elements of any marketing strategy are selecting a target market and positioning the product or brand.

Target market
As described in Chapter 11, selecting a target market is important as few, if any, products are aimed at the entire population. When selecting a target market, consider the particular target in terms of accessibility and profitability, etc. Target market selections need to be justified in your marketing plan. This is where the process of segmentation becomes crucial. The basic rationale of market segmentation is that not all consumers have the same characteristics. Market segmentation is the process of dividing the entire potential market into components (segments) to identify possible target markets (see Chapter 11 for more detail on segmentation). Segmentation is an important part of a marketing plan as it identifies which groups of consumers the company will target.

Positioning
Chapter 12 describes a positioning statement and how to formulate one. The development of this statement is a crucial step in the marketing plan, as the positioning of the product or service positioning informs a range of tactical decisions. Positioning is focussed on influencing consumer perception of a brand or product in relation to rival brands. For example, some companies may position their product at the luxury end of the market while others may be more suited to a positioning strategy that concentrates on value for money. This will influence almost every marketing tactic used.

Objectives

Every marketing plan needs objectives. Everyone tasked with executing a marketing plan needs to understand what the ultimate aims are. Well-defined objectives should follow the SMART goals approach. They should be specific, measurable, attainable, relevant and time-bound. They are also likely to include financial and strategic objectives.[14] Examples of objectives include market-share targets, sales volumes and ROI. Here broad timeframes can be listed and what will not be done (enabling you to keep focused and avoid scope creep).

Tactical elements

As discussed in Chapter 1, tactics should be a logical progression of the strategy. Tactics are the tools available to marketers to implement the plan. Marketing tactics are based on the marketing mix (the Four Ps), detailed in Chapters 13–16 and briefly described below.

Marketing mix

The marketing mix elements usually include the Four Ps: product, price, place, and promotion.[15]

Product tactics
Some key questions you should ask in formulating product tactics include:

- What needs do our products and services satisfy? (What is the core benefit?)
- What attributes are needed in the actual product?
- What additional services are required?
- For new product development, what are the steps required?

Pricing tactics
The price of your product or service needs to be set or adapted to the product life cycle (see Chapter 14) and be in tune with the current market, which is constantly changing. Price has a direct impact on demand, revenue and profit. The following questions can be considered in pricing decision-making:[16]

- What will our overall pricing objectives be?
- What are our costs?
- What are competitor prices for similar products?
- What control do we have, or do we want over final prices that customers pay?
- Are there any legal restrictions on our pricing policies?

Place (distribution) tactics
Deciding where and how a customer can access your products and services is crucial. This phase is dependent on careful market assessment and should be based on existing networks or platforms with which the customer is familiar and trusts, or whether a new avenue needs to be established to meet demand. The four basic objectives in determining the place or distribution plan are:

- Tactics related to channel choice
- Tactics related to inventory
- Tactics related to distributor sales and promotional activities
- Tactics related to customer-development programmes (e.g. incentives for distributors)

Some additional questions to consider on distribution include:

- Where does our target market buy these or similar products?
- How broad is the market coverage of the different types of intermediaries?

- How much communication is needed to keep distribution tasks running smoothly for similar products/services?
- Who will oversee distribution?
- What margins will be expected by intermediaries and will these be sufficient to compensate them for services you expect them to perform?
- How will these margins affect your competitiveness in the market?

Promotion tactics
Promotion tactics are how, what and where a company communicates. Communications include everything from advertising on television through to leaflets dropped through the letterbox. Successful companies will ensure that all their communications form part of an integrated approach. This approach entails the development, implementation and evaluation of marketing communication activities using multiple communication channels. The adoption of new media channels which are cost-effective and far-reaching, such as the internet, can be useful in your approach. Some questions that can guide marketing communication include:

- What media will you use?
- Who is your target audience (might be different to the target market)?
- What behavioural effects do you require of your promotion? (Interest? Awareness? Conviction? Desire? Action?)
- How much will you spend on each promotional element: advertising, sales promotion, etc.?
- When should communications take place?

Action programmes

A marketing plan requires the support of non-marketing functions. The action programmes should be coordinated with the resources and activities of other departments including production, finance and purchasing.[17] Each element of the action programme should answer:

- What will be done?
- When will it be done?
- Who will do it?
- How much will it cost?

Budget

A crucial part of a marketing plan is the budget. How much will the company commit to marketing? Budgets are usually set on an annual basis and are reviewed regularly. The approved budget serves as a guide for the development of procurement plans and schedules, production schedules, recruitment plans and strategies to guide marketing expenditure.[18] This budget needs to align with the overall operational budget of the firm and ideally should be linked to sales performance.

Controls and contingency plans

Most companies continually monitor marketing activity to determine efficacy and to ensure a speedy response to changes that may occur, for example, competitor activity. Ongoing monitoring and evaluation usually occurs through a variety of methods, including quarterly cross-departmental management meetings, ongoing analysis of internal and external factors that may impact set plans, such as political or economic shifts, and any competitor changes that may impact the delivery of products or services to the end-user. It is essential to include a contingency plan in operational planning should a major unexpected national or global situation occur, such as industry-specific changes in terms of regulations. This may affect pricing and distribution.

Feedback and measurement

There are a number of ways to approach feedback and evaluation on the effectiveness of the marketing plan., According to Morello (2019), these are the seven essential ones:

1. **Return on Investment**
   Profitability of money invested in the development of the marketing plan, strategies and tactics.

2. **Reviewing Sales Numbers**
   Comparing amount of sales generated prior to implementation of the marketing plan and after the implementation to track whether it has made a direct impact.

3. **Customer Response and Reactions**
   This can be achieved through surveys, post-purchase feedback or in-store activations to gauge customer satisfaction.

4. **Marketing Reach Expansion**
   The company buy-in, through a marketing plan expanding into different regions and markets, is evidence of success.

5. **Marketing Partner Response**
   Feedback from associated brands, suppliers and stakeholders, due to their proximity to customers, will highlight positive or negative effects expediently.

6. **Outside Salespeople Feedback**
   These individuals can track consumer sentiment on messaging and communications efforts to assist in customer retention.

7. **Actions of Competitors**
   Competitors who emulate a new marketing plan may be evidence of a great initiative, and a plan that receives negative reviews may require a revision of the plan.

Executive summary

Once a full marketing plan has been completed, an executive summary, usually not more than one page, needs to be created to summarise the plan. This section summarises the main goals, recommendations and points which need to be included in an overview for the funders or senior managers who approve the marketing plan. Although this is the last section to be completed, it is often the first page of the marketing plan, as it provides decision-makers with an understanding of the overall vision.

Conclusion

There is no 'one-size fits all' marketing plan for companies. The plan should therefore be adapted, altered, refined and configured to the needs of the product or service in question. Table 21.1 provides a full overview of a marketing plan.

Table 21.1: Contents of the marketing plan

Part of overall marketing strategy	Section of the plan	Explanation
Preliminaries	Executive summary	An abbreviated summary of the main points of the plan for management overview.
Diagnosis	Porters Five Force analysis	An analysis of competitive position.
	Opportunity and issue analysis (SWOT)	The strengths and weaknesses of the firm; the opportunities and threats facing it.
	Current marketing situation (micro/macro environment)	Relevant background data on the market itself and the broader marketing environment – 'What's happening?'
	Research	Any relevant market or consumer research that has helped to drive marketing decisions.
	Segmentation	How the entire market can be divided to help select a target market(s).
Strategy	Marketing strategy	Who is the target market(s)?; positioning statement (with justification); branding decisions.
	Objectives	Sales volume, market share, ROI, broad timeframe, what not to do (focus).

Tactics	Marketing tactics	What blend of marketing mix elements (the Four Ps) is required to execute the strategy?
	Action programmes	What will be done? Who will do it? When will it be done? How much will it cost?
	Marketing budget	Must align to the overall business plan budget. Projected profit and loss statement summarise the potential financial return from the marketing plan.
	Controls and contingency plans	How will the marketing plan be supervised? If things do not go as expected, what plans need to be actioned?
Feedback and measurement	Evaluation and feedback plan	How will you know if the strategy is succeeding? How will this inform future strategy?

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