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Developing a Strategic Marketing Plan for Horticultural Firms

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A marketing plan is essential for every horticultural business and for efficient and effective marketing of any horticultural product or service. A marketing plan serves as a road map. It establishes objectives, recommended actions, and timing for achieving the objectives. An understanding of the marketing planning process is also a valuable aid in helping managers organize their thinking about the marketing process and the various methods and procedures used. A strategic marketing plan takes into account the market environment facing the business (e.g. trends, competitive environment, regulatory issues, technological advancements, etc.) Thus, the emphasis is not only on projections but also on an in-depth understanding of the market environment, particularly competitors and customers. Its goals are to take maximum advantage of opportunities, solve problems and counter threats to the business.

Before discussing the details of a marketing plan, it is important to identify the three different levels of planning activities that a firm may conduct to determine marketing strategies.

- The company strategic plan defines the organization's mission, sets long-range goals and formulates broad strategies to achieve these goals.
- The strategic marketing plan is the long-term plan for the marketing area and deals with the overall marketing objectives of the organization.
- The operating marketing plan focuses on the tactical decisions needed to carry out the strategic marketing plan. It is a detailed plan indicating the results of a situation analysis and offering a set of objectives and tactical statements to accomplish these objectives by the end of the year. Fundamentally, a tactical plan provides the answers to the questions – WHO, DOES WHAT, and WHEN (timelines).

The firm's marketing strategy must support the overall business mission and be consistent with other components of the business strategic planning.

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AN OVERVIEW OF STRATEGIC PLANNING

Planning is deciding now what we are going to do later, including when and how we are going to do it. Strategic planning is the managerial process of matching an organization's resources with its opportunities over the long run. The intent is to seize changing opportunities and to counter the imminent threats.

Characteristics of Strategic Planning

Strategic planning is more of an art than a science; it is more intuitive, systematic and analytical, rather than quantitative. Some characteristics of strategic planning are:

- Looks at the "Big Picture"

  Strategic planning should be coordinated with company-wide planning and coincide with the company's vision and mission.

- Leads to Substantial Changes

  Long-range planning deals with broad, company-wide issues. There will be discontinuities from past projections and new trends. Both will require strategic adjustments and often lead to substantial changes, e.g. additional capital investments, potential gain in market share, new or discontinuation of product lines, and formation of strategic alliances with other firms, etc.

- Considers Future Environmental Forces in the Industry

  Strategic planning will be influenced by external environmental forces such as new technology, government policy, economic conditions, industry structure, competition, and consumer trends.

- Anticipates the Reactions of Competitors

  A proactive strategy attempts to influence rather than simply react as competitors change their policies or strategies.

- Looks at a Longer Time Horizon

  Strategic planning is usually long-range planning. The planning process typically involves projecting sales, costs, and technology into the future using data and experience from the past. The time frame can cover three, five, or ten years, depending on the context. Given today's fast changing markets and economy, any time frame over five years is probably unrealistic.

The Purpose of Strategic Planning

Strategic planning attempts to identify and isolate present actions and forecast how results can be expected to influence the future. Reasons a firm can gain a *competitive advantage* from the strategic planning process include:

- Establishing goals, objectives, priorities and strategies to be completed within specified time period; hence, a clear direction for management and employees to follow
- Defining in *measurable terms* what is most important for the firm
- Establishing a basis for evaluating the performance of management and key employees
- Providing a management framework which can be used to facilitate timely response to changed conditions, unplanned events, and deviations from plans
- Anticipating problems and taking steps to eliminate them
- Allocating resources more efficiently to meet changes including labor, machinery and equipment, buildings, and capital

Contents of A Strategic Plan

The contents of strategic plans can vary considerable; however, such plans will usually contain the following common elements:

- <u>Mission Statement</u>

  A firm's mission statement defines what the firm *will be*, not necessary what the firm is now. It describes what product and/or services the firm will produce; to whom it will sell; and what are its primary goals, values, policies and procedures.

- <u>Objectives</u>

  These are a set of measurable statements of what the business wishes to accomplish in areas such as growth, profitability, market share, volume of production and cost control. These objectives will guide the organization in accomplishing its mission and serves as principles for planning at lower functional levels in a company.

- <u>Alternative Strategies</u>

  These are broad, basic *plans of action* by which an organization intends to achieve its goals and fulfill its mission.

Steps of the Strategic Planning Process

Step 1. Define the firm's mission

The mission statement defines the purpose of the firm and answers the question, "What business are we in?" Defining the firm's mission requires the manager to carefully identify the firm's orientation regarding customer groups to be served and the needs to be satisfied. The firm's mission statement provides employees, customers, and other organization stakeholders with a business definition to establish a sense of purpose, identity, and commitment. It answers questions such as:

- What type of agricultural products and services will be produced?
- What are the markets?
  - ✓ Who are the consumer groups to be served?
  - ✓ What are the needs that will be satisfied?
- What, if any, other activities are we involved in and what are the priorities of these activities?
- Why are we in business? What are the goals, beliefs and values of the company?
  - ✓ For profits?
  - ✓ To provide employment/security for other family members and/or stakeholders?
  - ✓ To increase wealth?
  - ✓ Gain community status?

Step 2. Assess the external environment

The external environment analysis involves an examination of the relevant elements external to an organization. It should include competition, technological environment, economic environment, political environment, legal and regulatory environment, and social and cultural environment. It focuses on identifying and understanding the present and potential opportunities and threats facing the organization.

Step 3. Identify major opportunities and threats for the firm

Challenges in the external environment for one sector can present opportunities in another segment of agriculture. Health concern about cholesterol intake created new markets for poultry, fish and produce. Concern about carcinogens in the environment, including some pesticides, has brought new opportunities for organic-, IPM-, and other eco-labeled products.

Step 4. Assess the firm's strengths and weakness

A self-analysis aims to provide every business operator an understanding of the aspects that every firm is constrained by the *internal environment* to some extent. Future strategies are often developed by building on the firm's strengths and neutralizing weaknesses.

Candid answers should be provided to the following questions:

- What are the quantity and quality of resources?
- What are the abilities and limitations of management?
- What are the skills and abilities of labor force?
- What is the financial position of the firm?
- What is the condition of the physical plant?

Steps 2, 3, and 4 constitute a "SWOT" analysis. "SWOT" stands for "Strengths, Weaknesses, Opportunities, and Threats."

Step 5. Establish "SMART" objectives

The next step in strategic planning is for management to decide on a set of objectives that will guide the organization in accomplishing its mission. Specific objectives should flow from the goals and core values expressed in the mission statement. Objectives should stimulate actions. They should possess "*SMART*" attributes:

- S = Specific
- M = Measurable
- A = Attainable
- R = Rewarding
- T = Timeline

Step 6. Develop and evaluate alternative strategies

Considering the three elements:

- *Product-market investment strategies*: product-market scope, growth directions and investment strategies.
- *Functional area strategies*: product lines, price and distribution.
- Bases of the firm's *competitive advantage*: assets, skills and synergies.

Step 7. Select the best strategy or strategies

A strategy must be supported by assets and skills and must be employed in a suitable environment. The following are possible criteria for strategy selection:

- Be responsive to the external environment and reflect opportunities and threats.
- Be consistent with organization's vision/mission/objectives.
- Be feasible.
- Fit with the other strategies of the firm.
- Result in reasonable changes.

Step 8. Implement strategy (Tactical plans – who, what, when, and how much will it cost?)

The implementation stage involves converting a strategic alternative into an operating plan. The operating plan may span more than one year. It might be useful to provide a detailed plan for the upcoming year that contains specific short-term objectives.

Step 9. Evaluation and/or control phase

One of the key questions in a strategic market management system is to determine when a strategy requires review and change. It is usually necessary to monitor a limited number of key measures of strategic performance, i.e. sales, market share, margins, profit and ROA.

DEVELOPING THE STRATEGIC MARKETING PLAN

Marketing planning should be guided by the mission and objectives of the organization-wide strategic plan. A strategic marketing plan is a written document containing four basic elements: (1) a summary of the situation analysis, (2) a set of objectives, (3) a detailed strategy statement, and (4) a set of procedures monitoring and controlling the plan and a contingency plan.

A Suggested Outline:

I. EXECUTIVE SUMMARY

II. THE FIRM'S MISSION STATEMENT

III. SITUATION ANALYSIS

- A. Analysis of the external environment, emphasizing those aspects which affect the firm's marketing plan
- B. Analysis of the firm's strengths and weaknesses with an emphasis on marketing.
- C. Description of products/services
- D. Target markets
- E. Market potential

IV. OBJECTIVES

- A. Marketing objectives for next year and for the next three to five years
- B. Sales and profit objectives for next year and the next three to five years

V. STRATEGIES – HOW WILL YOU ACHIEVE YOUR GOALS?

- A. Overall strategy
- B. Competitive strategies
- C. Pricing, place (or distribution), and promotion strategies
- D. Marketing and advertising budgets

VI. FINANCIAL IMPACT EVALUATION

VII. POTENTIAL PROBLEMS IN ACHIEVING OBJECTIVES AND PROPOSED SOLUTIONS

VIII. IMPLEMENTATION OR TACTIAL PLANS (TIMETABLE AND BENCHMARKS)

IX. MONITORING AND CONTROL

X. APPENDICES - INCLUDE SUPPORTING DOCUMENTS

I. EXECUTIVE SUMMARY

Prepare a one or two paragraph overview of the entire marketing plan.

II. FIRM'S MISSION STATEMENT

A business mission is a brief statement about the strategy of a business. The mission statement provides a business definition. Reviewing the business mission statement can provide a vehicle for generating and screening a wide variety of strategic options. The development of a business mission statement is discussed in the previous section. The firm's marketing strategy should support the overall business mission.

III. SITUATION ANALYSIS

The situation analysis analyzes the environment facing the business with the proposed products or services.

A. Analysis of the External Environment

External analysis involves an examination of the relevant elements external to an organization. It identifies opportunities, threats and uncertainties facing the firms. Some examples of strategic questions useful in the external analysis for a horticultural business include:

1. Microeconomic Information

- **Consumer Analysis** – e.g. demographic changes, changing consumer lifestyles, population growth in selected regions, etc.
- **Competitor Analysis** – identification of competitors, current and potential
- **Market Analysis** - e.g. market size, growth prospects, market profitability, cost structure, distribution channels, trends, market forces and their effect on prices, etc.

2. Macroeconomic Information

- **Environmental Analysis**
  - ⇨ Technology, especially breakthroughs that would favor one country or region over others)
  - ⇨ Political/Legal, e.g. regulations of labor and pesticides.
  - ⇨ Economics, e.g. globalization (NAFTA, WTO), value of the dollar relative to other key currencies.
  - ⇨ Social/Cultural, e.g. impact of society's view toward animal rights, environmental protection, genetically modified organisms (GMO's), etc.

B. *Analysis of the Firm's Strengths and Weaknesses*

The analysis of the strengths and weaknesses of the firm and the analysis of the external environment were discussed in the previous section. The SWOT analysis should be kept simple by emphasizing those aspects that affect the marketing plan.

C. *Description of Products/Services*

Planning the marketing mix begins with the product or service to be offered. The description of products and/or services should be brief and straightforward. This strategic element requires careful planning in both developing new products and altering existing ones. Pricing structures, channels of distribution, and promotional mixes are all based on the products or services that are offered to the customers.

The products and/or services offered by most horticultural businesses are often generic. Differentiating your products and services from those of the competition starts with thorough product or service knowledge. A product and service line analysis goes beyond a list of what you currently sell. One of the most important aspects of marketing is giving your customers reasons to buy your products.

Answering the following questions will help you better understand how to position yourself:

- What are your products and/or services?
- What benefits do your products and/or services provide to your customers?
- How do your products and/or services differ from your competitors' products and/or services?

D. *Target Markets*

The target market is a group of customers (people or firms) to whom the company aims its marketing effort. Specifying target markets is a key point in the development of your marketing plan. Company resources for marketing are generally limited and should be invested wisely to provide the highest return. Target markets help focus all aspects of the marketing plan, especially promotion and pricing. Your choice of target markets will determine your production and marketing practices, not vice versa.

A target market is not simply whoever is buying, or will buy, your horticultural products! The target market consists of the individuals or businesses that you identify as your most desirable customers. The group identified is not necessarily your current customers. Determining a target market can help identify the competitive advantage for your firm. In this case, a variation in sales response is to be expected – the targeted segment will contribute substantially more to sales and/or sales growth than will other groups of customers

The selection of target market segment(s) should be guided by the following three questions:

- Is the segment attractive? Is it profitable, and does it have growth potential?
- Does the firm have a competitive advantage in meeting the needs and wants of customers in that segment? What assets or skills does the firm possess that allow it to provide the benefits desired by the buyers in that segment?
- Is the competitive advantage sustainable? If you are successful in the segment, can or will competitors enter the market to get a "piece of the action"? This is harder to achieve with horticultural products than with many other types of consumer products.

Market segmentation divides the total heterogeneous market for a good or service into several segments, each of which is homogeneous in some respect. A firm with limited resources can compete more effectively if only one or two market segments are identified. If additional targets are identified, the firm could possible spread its resources too thinly to combat competition pressure.

Basic market segmentation criteria are:

- **Demographics** – age, gender, household composition, income, education, occupation, social class, religion, ethnic background, etc.
- **Geographic** – country, region, state, county, city/town, population density, urban-rural, climate, etc.
- **Psychographic** – leader or follower, personality (ambitious, self-confident, aggressive, introverted, extroverted, etc.), life style and values (conservative, liberal, health/fitness oriented, etc.)
- **Consumer/Behavioral** (product-related bases) – rate of usage, benefit desired, method of usage, frequency of purchase, etc.
- **Business Markets** – retailer, wholesaler, broker, processor, or farm market. These may further be segmented according to size of the business, location, special requirements, etc.

E. Market Potential

This refers to the expected sales of a product or service for an entire market over a specific time period. What size are the markets, and what potential sales, profits, or other advantages does each have? How many units can one expect to sell at what price? The answers to these questions will impact sales and profit goals. A starting point for an existing firm can be based on recent history.

IV. OBJECTIVES

Marketing objectives and goals are accomplishments you intend to achieve with the help of your marketing plan. The basis for setting the specific objectives is the qualitative and quantitative data gathered from previous analysis. In developing marketing objectives (short- and long- term) and sales/profit goals (short- and long-term), it is important to keep in mind the elements of setting "SMART" goals and objectives as described in the previous section. Objectives must be consistent with the organizational mission.

V. STRATEGIES – HOW WILL YOU ACHIEVE YOUR GOALS?

Strategy is the link between objectives and results. It mainly concerns the utilization of resources, including environmental, work force, and ability to readjust to competitors' counter-strategies. Thus, alternative marketing strategies provide the direction to marketing efforts. The strategies should include a unifying theme. A firm may use multiple strategies/tactics to achieve the same objective.

A. *Overall Strategy*

Briefly describe the company's overall strategy to approach the markets it is attempting to serve.

B. *Competitive Strategies*

One approach to strategy development is in relation to competitive marketing strategies currently used by other firm in the market. Some generic marketing strategies firms can use are as follows:

- **<u>For firms which are "price-takers"</u>**
  - Exploit quality differences (size, color, taste, varieties, etc.) which command higher prices.
  - Integrate vertically – move forward into the marketing chain toward the retailer to capture more of the value-added revenue
  - Identify new markets, either for other commodities or enterprises, or new buyers
  - Add services – delivery, unloading, stocking, shelves, package, etc.
  - Reduce risk – diversification; or by using risk management tools such as crop insurance, hedging or forward contracting. (Hedging is not available to horticultural producers except for orange juice concentrate future contracts. Forward contracting is becoming more common.)

- **<u>For firms which have some degree of control over pricing</u>**, consider Porter's four generic competitive marketing strategies:

  - ***Cost Leadership Strategy***

    This strategy requires serious commitment to reduce expenses that, in turn, lower the price in a relatively broad array of market segments, e.g. flowers or plants sold at K-Mart, Wal Mart or other discount chains.

    It should be noted that this strategy pertains to retailers. Growers who wholesale to these retailers are most often price-takers – if their price gets high, other sellers will be available to sell to the discount chain (see the strategies above for price-takers.) In this instance, adding services may offer a way to hold the discount chain account.

  - ***Differentiation Strategy***

    It requires uniqueness or significant points of differences in product offerings (e.g. new varieties, new colors or shapes of flowers, crops produced by organic or Integrated Pest Management (IPM) production systems), higher quality, superior service, an unusually strong brand image (Green Giant vegetables, Dole fruits, 1-800-flowers etc.), or products of origin (Vadalia onions, Napa Valley wines, etc.). Products of origin differentiation is much more developed in Europe than in the US, e.g. Bordeaux wines, Cognac, Champagne, Roquefort cheese, etc.. The New York Apple Association's effort of using group action with its Apple Country logo to differentiate New York apples is one example.

  - ***Cost-Focus Strategy***

    It involves controlling expenses and, in turn, lowering prices in a narrow range of market segments.

  - ***Differentiation-Focus Strategy***

    It utilizes significant points of difference to one or a few market segments (e.g. Swedish Hill Vineyards' Svenska product line; direct marketing of horticultural products through advertising in the *New Yorker* magazine, etc).

  - A fifth generic strategy sometimes appears in some treatments of Porter's generic strategies: Best-cost provider- giving customers more value for the money by combining an emphasis on low cost with an emphasis on upscale differentiation (e. g. Lauretan Bordeaux AOC white wine and Concha y Tora varietal wines from Chile).

C. *Pricing, Place (or Distribution), and Promotion Strategies*

- **<u>Price</u>** (list price, discounts, allowances, payment period, credit terms)

  Prices are determined by market conditions and competition. The price a farmer receives depends largely on the distribution channel through which products are sold. Nonetheless, marketing texts admonish us not to "lack courage in pricing"(Bangs 1998)!

  When a firm sets the price, a balance must be met between what the firm wants to charge and what the buyers (middlemen or consumers) will accept. The farmer is a price-taker at terminal and wholesale markets. In direct marketing, although the grower marks the price on each item, an astute direct marketer will carefully observe prices at chain stores and wholesale markets.

  - ***Some Aspects When Considering Pricing Strategy***

    <u>Quantitative</u> - Price elasticity of demand

    $$\text{Elasticity} = \frac{\text{\% change in quantity demanded}}{\text{\% change in price.}}$$

    When demand is <u>inelastic</u>, total revenue increases with a price increase. Conversely, when demand is <u>elastic</u>, a price increase leads to a decrease in total revenue.

    Products which are price inelastic tend to be necessities, high image products (fine wines), and products for special occasions (flowers for a funeral). However, as a practical matter, elasticity data is usually not available to horticultural firms.

    <u>Qualitative</u> - What firms can use to guide pricing is a <u>qualitative</u> technique, judging price sensitivity from customers' past reaction to price increases or "high prices" in the following ways:

    ✓ *<u>Unique value</u>*- If customers believe the product offers values that cannot be found in other products, they are willing to pay more (e. g. Champagne).

    ✓ *<u>Substitute awareness</u>*- If they are aware of close substitutes, they will be sensitive to price changes (frozen concentrate juices).

    ✓ *<u>Difficult comparisons</u>*- If they have difficulty comparing prices, prices will be less important, within reasonable limits (e. g. landscaping contractors). Reputation and experience become important for increasing sales.

    ✓ *<u>Total expenditure relative to income</u>*- Most customers won't agonize over a 10 percent increase in the price of a bag of apples, but the same people probably would for a 10 percent increase in the price of a car.

- ***Cost and Profit-Based Pricing Techniques***

  An astute marketer knows the cost of production of each item so that he/she can use this information to set prices. If the goal is to maximize profits, items cannot be sold for less than they cost to buy or produce.

  Two commonly used cost and profit-based pricing techniques are:

  ✓ _Gross margin pricing_

  The gross margin method is based on the selling price. It permits the marketer to use the income statement from the marketing enterprise to add a percentage margin that will allow attainment of the marketing plant's profit objectives. This technique allows the incorporation of fixed costs into pricing objectives since these costs (e.g. interests, taxes, and insurance) are included in the income statement.

  Gross margin is determined by subtracting cost of goods sold from net sales:

$$\text{Gross Margin \%} = \frac{\text{Selling Price} - \text{Cost of Goods Sold}}{\text{Selling Price}} \times 100$$

or

$$\text{Selling Price} = \frac{\text{Cost of Goods Sold}}{100\ (\%) - \text{Desired Gross Margin}\ (\%)} \times 100$$

  ✓ _Mark-up pricing_

  A mark-up is an addition to the cost of a product to reach a selling price. Many retailers and middlemen prefer to use mark-up pricing instead of gross margin pricing. Typically mark-ups are expressed in percentages rather than dollars. It could be expressed in relation to cost.

  The mark-up pricing is calculated as follows:

  Selling Price = Cost Of Goods Sold + (Mark-Up % x Cost of Goods Sold)

  (Cost of goods sold could be determined either by terminal market prices, or the growing cost per unit.)

- ***Some Other Pricing Techniques***

  - ✓ *Relative to its competitors* – This is increasingly used to describe the practice of adopting a lower price while maintaining the product's basic value.

  - ✓ *Skim pricing* – When introducing a new, innovative product, charge a high price, implying that you are "skimming the cream." The price can be reduced after customers who are early adopters have tried the product.

  - ✓ *Penetration pricing* – When a firm wants to increase its presence in a given market, they often do so by setting a low initial price for a new product with the specific intention of gaining market share. This strategy can also be employed at a later stage in the product's life cycle to stimulate sales or defend market shares.

  - ✓ *Psychological pricing*

    - ∗ <u>Prestige pricing</u>- Use price to help you position a product as high quality or exclusive. (Used in wine pricing.)

    - ∗ <u>Odd-even pricing</u>- Prices are set at uneven (or odd) amounts, e. g. 99 cents rather than $1.00. Discount retailers tend to use odd prices while full-price retailers tend to use round, or even numbers. Odd prices are the rule in supermarkets. The rationale for odd pricing is that uneven price-endings suggest lower prices.

  - ✓ *"Multiple price" strategy* – Customers are given a discount for purchasing in quantity. The increases returns by boosting the volume sold. Gross margins should be figured on the quantity package:

$$\text{Selling Price of the Quantity Package} = \frac{\text{Cost of Item x Number of Units in Package}}{(1 - \text{Desired Gross Margin})}$$

  - ✓ *Loss leader pricing* – Prices of some items are set at or below costs and advertised to draw customers into the market. The increase in store traffic is expected to lead to an increase in overall store sales.

- **<u>Place or Distribution</u>** (Channels, coverage, location, inventory, transport)

  A marketing channel is a system of individuals and organizations (supported by facilities, equipment, and information) for directing the flow of goods and services from producer to the ultimate customer or business user. Also frequently referred to as <u>distribution channels</u> because distribution is one of their primary functions. A company wants a distribution channel that not only meets customers' needs, but also provides an edge on competition. Most distribution channels for horticultural crop producers include middlemen, but some do not.

  - **Fresh market growers** typically have the following alternative outlets:

    - ✓ *Consignment through a packer-shipper* – This is the most important type of outlet in terms of volume of fresh sales for most fruits and vegetables. Most packers are larger growers who pack their own fruit and also pack for other growers. Some packers or packer-shippers are jointly owned by several growers. A few are cooperatives.

    - ✓ *Orchard or field run sales* – Some packers or grower-storage-operators will buy orchard or field run fruit or vegetables for a specified price to the grower.

    - ✓ *Growers own packing-shipping facilities (product sold by the grower, sales agents or brokers)* – These tend to be larger growers. Growers who pack only their own products tend to be relatively small as packers. Most ornamental horticultural crop producers pack and ship their product to the next point of the distribution channel.

    - ✓ *Organized wholesale markets or terminal markets (Hunt's Point in New York City)* – There has been a long-term downward trend in the volume of products handled in this type of organized wholesale market.

    - ✓ *Individual wholesale marketers (wholesale distributors, sales agents, brokers)*

    - ✓ *Marketing cooperatives (Eden Valley Growers in western NY, Coastal Growers Cooperative in MA)*

    - ✓ *Direct to consumers* – The potential volume which a grower can market direct is highest near large population centers. This is an advantage often enjoyed by horticulture producers in the Northeast. Retailing direct to consumers involves substantial differences in marketing operations by growers compared to selling to wholesale to market outlets. The followings are some direct marketing outlets:

* U-pick, Pick-Your-Own
* Roadside stand, farm market, and retail store.
* Community Support Agriculture (CSA)
* Local farmer's market (Ithaca Farmer's Market)
* Urban farmer's market (Greenmarket in NYC)
* Mail order, E-commerce
* Direct to business users (produce to restaurants, ornamental plants to business offices)

- **Processing growers** typically have the following outlets:
  - ✓ Sell to proprietary or investor-owned processors (Duffy Mott)
  - ✓ Processing cooperatives (Ocean Spray and Welch's)
  - ✓ Grower has own processing facilities-usually in combination with direct marketing (apple cider, home-made jam, specialty food)

- **<u>Promotion</u>**

  Marketers can choose from a wide range of communications media to convey their messages to target audiences. In choosing among communication media, a number of considerations are significant – 1) the medium will actually reach the target audience; 2) the medium is appropriate for the message conveyed; and 3) cost differences among media are important when establishing an effective communication mix.

  Ask yourself what is the role of promotion in your marketing strategy?

  - ✓ To provide information about products.
  - ✓ To stimulate demand.
  - ✓ To differentiate products and/or to build a brand image.
  - ✓ To remind current customers about product benefits.
  - ✓ To counter competitors.
  - ✓ To respond to negative news, or to take advantage of positive news (new health research results).
  - ✓ To smooth out seasonal demand fluctuations.

Methods used by a company to promote its goods and services can include advertising, public relations, sales force, direct marketing, and sales promotion activities.

- ***Advertising***

  Appendix A lists the advantages and disadvantages of various advertising media (newspapers, magazines, yellow pages, radio, TV, internet, direct mail, telemarketing, "specialty advertising," and word of mouth.)

- ***Public Relations***

  Public relations is a broad, overall communications effort to influence the public's attitudes toward the firm or its products. Publicity is a promotion technique that uses non-paid communications presented by the media (e.g. a New York Times article about a winery.) Good public relations can also be achieved without the media by community services (e.g. helping local schools with educational products, and supporting local charitable projects.) and event marketing.

- ***Sales Promotion Activities***

  Sales promotion activities include coupons, premiums, in-store displays, trade shows, samples, in-store demonstrations, and contests. Sales promotion activities may be conducted by producers or middlemen. The target for producers' sales promotion may be middlemen or end users. A major function of sales promotion is to supplement and coordinate efforts in the advertising and personal selling efforts.

This concludes a discussion of the four P's: Product, Price, Place (or distribution channels), and Promotion.

- Some horticultural businesses are primarily services (e.g. landscaping contractors) or have a substantial service component to them. ***Services*** are defined as identifiable, intangible activities that are the main object of a transaction designed to provide want-satisfaction to customers. To market their services, firms should consider **<u>three additional P's</u>;**

    - **<u>Processes</u>**- Some businesses need to develop orderly, efficient *processes* to take care of customers- e. g. U-pick operations need to design a systematic way to handle customers-parking, containers, assigning rows or areas to pick, and handling transactions at the cash register.

    - **<u>People</u>**- In most horticultural businesses, personnel expenses represent the largest category of cash expenses, so effective Human Resource Management is extremely important for attaining profitability. But with businesses which have an important service component, *people*, or employees, assume an even greater importance because they are the customer's contact point with the business. Services typically cannot be separated from the creator-seller of the service.

    - **<u>Presentation</u>**- This could be considered as the "packaging" of a service business. Customers often form opinions of a company and its service on the basis of service encounters. To understand this element of service, try to conceptualize "how it looks" to the customer as the service is rendered. For example, a landscape contractor starts with the presentation of the estimate: Is it done in a professional way? Are workers appropriately dressed for the job (standard uniforms with company logo?) Do they appear, in the customer's mind, to know what they are doing, and can they answer routine inquiries that the customer may have? Is there clean-up after the job is completed?

D. Marketing and Advertising Budgets

Marketing efforts require that expenditures of funds be budgeted. The marketing budget should reflect the marketing, sales and profit goals, and the financial condition of the business. The three most commonly used budgeting methods are:

- **Percentage of Sales Approach** – A fixed percentage of either past or forecasted sales is allocated to marketing. The proportion of sales allocated to marketing may be based on past results or on management judgements about the future. For new businesses, trade averages can provide some useful guidelines.

- **"All-You-Can Afford" Approach** – Some businesses set marketing budgets on the basis of fund availability. Thus, there might be a discrepancy between the budget adopted and the money needed to accomplish the required marketing tasks.

- **Task or Objective Approach** – This method requires that marketing objectives be clearly stated, and then expenditures necessary to reach those objectives be determined. This approach requires a great deal of experience to know what can be accomplished with a specific level of expenditures.

VI. FINANCIAL IMPACT EVALUATION

Evaluating the financial impact of a specific strategy requires the estimation of sales, costs of sales, marketing costs, and administrative expenses associated with a strategy before the strategy is implemented. After the potential financial impact has been evaluated, changes in the strategy may be needed to meet sales and profit objectives. Therefore, altering the original objectives or strategy might be necessary.

One approach to estimating the financial impact of the marketing strategy is to develop a pro forma *income statement* for a specific future time period using estimates of sales and costs associated with that time period. Three alternative income statements, based on pessimistic, most likely and optimistic assumption about demand for the plan, are often developed for evaluation. Finally, *a return on investment*, given the level of cash flow generated by a product or new strategy is computed. Return on investment is commonly used to determine the acceptance of a proposed plan.

A sales forecast and an expense forecast are required for developing projected income statements and budgeting. Some procedures for developing these estimates are discussed in the following section.

A. *Sales Forecast*

- **<u>Forecasts for Existing Products</u>**

  - ***Executive Opinion***

    It involves obtaining opinions regarding future sales of a product from one or more executives in a firm. This method is easy to use, and the executive judgement is useful and desirable if opinions are informed and based on valid measures. However, forecasting by executive opinion alone is risky because such opinions are, in some degree, dependent on intuition or guesswork, and tend to depend more heavily on recent experiences rather than distant ones. This approach might work best when combined with some other techniques to forecast sales.

  - ***Salesforce Composite***

    This bottom-up method consists of collecting information from sales people and middlemen. Estimates of what sales in their territories will be during the future period of interest are used. The sum of these separate estimates is the company's sales forecast. This method can be advantageous if the salesforce is knowledgeable about the market and well informed about the firm's marketing plan.

  - ***Market-Factor Analysis***

    The key to successful use of the method lies in selecting appropriate marketing factors. It is also important to minimize the number of market factors used.

    ✓ *<u>Direct derivation method</u>* – This method extends historical data into the future. This technique assumes that futures sales will be determined by the same variables (market factors) that cause past sales and that the relationships among the variables will remain the same. It is suitable for products with a history of stable demand and is more accurate for short-term than for long-term forecasts.

    ✓ *<u>Correlation analysis</u>* – This method employs a statistical refinement of the direct-derivation method but takes into account the degree of association between potential sales of the product and the market factor. Regression analysis is a commonly used statistical technique for developing a mathematical formula that defines a relationship between changes in past sales and one or more independent predictor variables (market factors). These factors are forecasted for future time periods, and their relationship to a firm's sales is used to forecast a product's future sales.

- **<u>Forecasts for New Products</u>**

  When new products are involved, no sales history is available. The executive opinion could be used for new products, but by itself would entail at best an educated guess. Some techniques commonly used in forecasting for new products:

  - ***Consumer Survey***

    Surveys of potential consumers are often used by firms who sell to relatively few customers when preparing a sales forecast. A survey can also be used for the end consumers as well. This would involve asking a sample of prospective customers how much of a particular product they would expect to buy at a given price during a specified future time period.

  - ***Test Marketing***

    Test marketing measures actual sales, not intentions to buy or opinions of experts. A firm markets its product in a limited geographic area, measures sales, and, from the sample, projects the company's sales over a larger area. This technique can also serves as a basis for evaluating various product features and alternative marketing strategies. It is critical that the demographics and psychographic characteristics of the test market match the characteristics of the target market in order to provide a true measurement of the market potential.

  - ***Substitute Method***

    Most new products are substitutes for existing products on the market. If the size of these markets can be estimated, the sale of the new products, based on its replacement potential for existing products, can also be estimated. An acceptance rate would have to be estimated for the proportion of existing consumers who would switch to the new product when it is introduced.

B. Expense Forecast

If the marketing plan is being developed for an existing product, the cost can be estimated based on past and anticipated volume. For new products, costs based on company experience for the test markets is one source of information. Another source is standard cost figures of the firm.

VII. POTENTIAL PROBLEMS IN ACHIEVING OBJECTIVES AND PROPOSED SOLUTIONS

Identifying problems or opportunities can help focus management efforts to maintain and restore performance. Try to anticipate where you may encounter the most difficulty in meeting objectives and develop some alternative solutions to the difficulties. Possible barriers include cash flow or capital shortages, personnel deficiencies or inefficiencies, out-dated technology, stale product lines, improper pricing, declining or flat sales, strong new competitors, quality control problems, and many more.

VIII. IMPLEMENTATION OR TACTICAL PLANS (TIMETABLE AND BENCHMARKS)

This is the *who* is responsible, *what* tasks they are responsible for, and *when* the tasks are to be completed. Also, some benchmarks can be established to measure progress toward implementation of the marketing plan.

IX. MONITORING AND CONTROL

This is the control phase of the marketing plan. It requires setting up performance standards. Once the tactics have been implemented, it is essential to monitor progress made toward achieving the goals and objectives. What indicators are important for monitoring progress? This could entail specifying receipts or expenses to track as the plan is being carried out. Four key control areas are sales (by weekly or monthly), cost control by month on key cost items, orders/profit at key times of the year, and consumer feedback. Performance standards may have to be revised if it becomes apparent that they were unrealistic in the first place.

Another element of evaluation is that the process may suggest mistakes that were made in developing the marketing plan which can be kept in mind when the next marketing plan is developed! Thus marketing planning must be considered as an on-ongoing, continuous process--not a process that is completed when the plan is written and placed on a shelf not to be opened again until the next plan is to be written!

X. APPENDICES – INCLUDE SUPPORTING DOCUMENTS

Could include brochures, price lists, flow charts, photographs, etc.. Any document that supplements the plan and lets outsiders who may need to view the plan better understand the business and the marketing plan. (Outsiders who may need to view the plan include creditors, potential investors, and/or stockholders).

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APPENDIX A

Advantages and Disadvantages of Various Advertising Media

Medium	Advantages	Disadvantages
Newspapers	• Your ad has size and shape, and can be as large as necessary to communicate as much of a story as you care to tell. • The distribution of your message can be limited to your geographic area. • Split-run tests are available to test your copy and your offer. • Free help is usually available to create and produce your ad. • Fast closings - The ad you decide to run today can be in your customer's hands two days from now.	• Clutter- your ad has to compete for attention against large ads run by other stores. • Poor photo reproduction limits creativity. • A price-oriented medium – most ads are for sales. • Short shelf-life – The day after a newspaper appears. It's history. • Waste circulation – You're paying to send your message to a lot of people who will probably never be in the market to buy from you. • A highly visible medium – your competitors can quickly react to your prices.
Magazines	• High reader involvement means more attention will be paid to you advertisement. • Less waste circulation – You can place your ads in magazines read primarily by buyers of your product or service. • Better quality paper permits better photo reproduction and full color ads. • The smaller page (generally 8½ by 11 inches) permits even small ads to stand out.	• Long lead times (generally 90 days) mean you have to make plans a long time in advance. • Higher space costs plus higher creative costs.
Yellow Pages	• Everyone uses the Yellow Pages. • Ads are reasonably inexpensive. • You can easily tract responses.	• All of your competitors are listed, so you run the ad as a defensive measure. • Ads are not very creative, since they follow certain formats.
Radio	• A universal medium – enjoyed at home, at work, and while driving. Most people listen to the radio at one time or another during the day. • Permits you to target your advertising dollars to the market most likely to respond to your offer. • Permits you to create a personality for your business using only sounds and voices. • Free creative help is usually available. • Rates can generally be negotiated. • Least inflated medium - During the past ten years, radio rates have gone up less than other media.	• Because radio listeners are spread over many stations, to totally saturate your market you have to advertise simultaneously on many stations. • Listeners cannot refer back to your ads to go over important points. • Ads are an interruption to the entertainment. Because of this, radio ads must be repeated to break through the listener's "tune-out" factor. • Radio is a background medium. Most listeners are doing something else while listening, which means your ad has to work hard to be listened to and understood. • Advertising costs are based on ratings which are approximations based diaries kept in a relatively small fraction of a region's homes.

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APPENDIX A. Advantages and Disadvantages of Various Advertising Media, continued

	Advantages	**Disadvantages**
Television	• Permits you to reach great numbers of people on a national or regional level. • Independent stations and cable offer new opportunities to pinpoint local audiences. • Very much an image-building medium.	• Ads on net work affiliates are concentrated in local news broadcasts and on station breaks. • Creative and production costs can quickly mount up. • Preferred items are often sold out far in advance. • Most ads are ten or thirty seconds long, which limits the amount of information you can communicate.
Internet	• Reaches a target audience. • Highly interactive. • Can provide enormous amounts of information at a very low cost. • Very flexible – You can change your pages quickly as conditions, products, and prices change. • "Links" to other sites can spread your reach.	• Reaches only the computer-literate. • Lots of internet clutters that may make your site hard to find. • A new (albeit fast-growing)medium.
Direct Mail	• Your advertising message is targeted to those most likely to buy your product or service. • Your message can be as long as necessary to fully tell your story. • You have total control over all elements of creation and production. • A "silent" medium – Your message is hidden from your competitors until it's too late for them to react.	• Long lead times required for creative printing and mailing. • Requires coordinating the services of many people: artists, photographer, printers, etc. • Each year over 20% of the population moves, meaning you must work hard to keep your mailing list up to date. • Likewise, a certain percentage of the names on a purchased mailing list is likely to be no longer useful.
Telemarketing	• You can easily answer questions about your product/service. • It's easy to prospect and find the right person to talk to. • Cost effective compared to direct sales. • Highly measurable results. • You can get a lot of information it your script is properly structured.	• Lots of businesses use telemarketing. • Professionals should draft the script and perform the telemarketing in order for it to be effective. • Can be extremely expensive. • Most appropriate for high-ticket retail items or professional services.
Specialty Advertising (balloons, sandwich boards, key charms, etc.)	• Can be attention grabbers if they are done well. • Can give top-of-mind awareness. • Gets your name in front of people.	• Difficult to target your market. • Can be an inappropriate medium for some businesses. • It's difficult to find items that are appropriate for certain businesses.
Word of Mouth	• Low cost. • Natural extension of personality of business. • Keeps customer needs in clear view. • This is an important adjunct to your other marketing efforts.	• Word of mouth is very dependent on levels of quality and customer service. • Must be managed carefully. Ask for referrals. Provide collateral advertising material to your customers. • Sometimes used in lieu of any other promotional efforts, which is dangerous.

Source: David H. Bangs, Jr. 1998. The Market Planning Guide. Upstart Publishing Company, Chicago, Illinois.