Objectives for the day...

• Introduce the marketing chapter
• Define target customer/market region
• Define your competition
• Market research – Primary & Secondary
• Consumer trends to consider
The Marketing Process

- Creating Value: Marketing Segmentation, Target Market Selection, Product/Service Positioning
- Capturing Value: Product/Service, Place/Channels, Promotion, Pricing
- Sustaining Value: Customer Acquisition, Customer Retention, Profits

Happiness, Value, Wellness, Convenience
Marketing Plan, cont.

- Promotion
  - Image or Product
  - Message
  - Tools/Delivery
  - Timing/Frequency
  - Budget

What belongs in a marketing plan

- Markets
  - Segmentation & sales potential
- Product description
  - What is it I am selling?
- Competition
- Distribution & Packaging
  - Scope
  - Movement
- Pricing
  - Inventory Management
  - Packaging
Basic Marketing Cycle

Define Gap or Customer Need

Evaluate satisfaction

Id how to meet that need

Find your unique selling position(s)

Communicate/Promotion

Deliver

Evaluate satisfaction

3 Marketing Strategies...

“If you aren’t unique you better be cheap.”

• Cost leadership
  • “For the quality, we are the cheapest”
    – High volume sales
    – Low cost relative to competition
    – Cost maximization practice

• Differentiation
  • “There is something really special about us…”
    – Create perception that you are unique
    – Strong marketing skills

• Focus
  • “We only cater to one segment of the market…”
    – Ability to really understand the customer need
    – Willing to let your customer have a lot of say re: your product
## 5 P’s of Marketing

<table>
<thead>
<tr>
<th>P’s</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Anytime one of these “P’s” changes, it should trigger a review of all the other “P’s”</td>
</tr>
<tr>
<td>People</td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td></td>
</tr>
<tr>
<td>Place</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td></td>
</tr>
</tbody>
</table>

## Keys to Great Marketing Plans

- Do your homework
- Set goals that encourage success
- Write it, review it, revise it
- Share it – get feedback- ask for advice
Who is your customer?

- Demographics
  - Age, gender, income
- Psychographics
  - Lifestyle based, values
- Geographic
  - What is your market area
- Usage
  - How much does the customer buy? How often?
- Benefit
  - Healthy? Green? Luxury? Beauty?

When you write your customer profile

- Describe your customer in increasing detail
- Know what information you still need to learn
- Understand the importance of targeting your product to a specific market
- Understand the difference between a trade and a retail customer
Market Research & Planning

- Trends vs Fads
- Where to find information
  - Secondary research
    - Census information
    - Consumption trends
  - Primary research
    - Survey’s
    - Product sampling
    - Observation

Finding Secondary Research

- American Factfinder at http://factfinder2.census.gov
- Associations and trade organizations
- Popular media (for coming trends and fads)
The role of secondary research

• Provides a macro view of your customer
• Describes the parameters of your customer base (Ex. X = the number of target consumers living within Y miles of me)
• Secondary research describes the environment that you are working within
America’s eating patterns & trends…

• Meat consumption appears to be flattening out
  • Approx 200 lbs/year
  • 57 lbs/year more than in 1950’s
  • Poultry is the fastest growing segment
  • Shopping for unusual cuts

• Dairy consumption is changing
  • Drinking less whole milk (92% of all beverages in 1950’s to 36% in 2000)
  • Cheese consumption is increasing (7.7lbs/person 1950’s to 30 lbs/person 2000 to 33.2 lbs/person 2008)

Food trends

• Demand for more convenient dining options continues to grow (eating out, ready-to-eat, heat-and-eat)
• “Local rules!” except that only 7% of diners select a restaurant based on local sourcing
• 12,000-17,000 new food products introduced every year
• Family groups are increasingly smaller, older, more ethnic
America’s food trends...

- Nutrition is important (%fat, sugar, fiber matter more than calories)
- ‘Just-in-time’ availability matters
- Price and quality both matter
- Foodies are looking for ‘trendy’ items

Primary Research

- Brings the secondary research down to a human scale
- ‘Colors in’ your customer profile
- Micro vs Macro
- Provides an honest assessment of the quality of your product
- Helps you determine your uniqueness
- More fuzzy
Primary Research...

• Survey’s of potential customers
• Focus groups
• Tastings & Sampling
• When you need the feedback fast and cheap…
  – Look to friends & family members
  – Ask for preference between 2 or more options rather than a straight ‘Yea’ or ‘Nay’

Critical questions to consider...

• How often will customers buy your product
  – Luxury or staple
• How much will customers buy?
• How versatile is your product?
• How mature/familiar is your product?
• Is demand for my product increasing?
• What is the shelf life of my product?
High investments
High benefits

Moderate investments
Moderate/High benefits

Low investments
Low benefits

Low
Peak
Aging Out

Eating for the experience

Luxury Foods
Packaged Foods
Meat
Eggs, Dairy
Staple foods

Household Income

Eating for survival
Break

Calculating Break-even Points

• Tool with several uses
  – Helps evaluate your product pricing
  – Tests required production volume against reality
  – Allows you to look at different scenarios quickly
• Break-even = The point at which your costs have been recouped and you begin to earn profit
Fixed vs Variable Costs

- Fixed costs stay constant regardless of production volume
- Variable costs increase as production increases (and decrease as production decreases)
- Determining what costs belong to which category is NOT an exact science
- Consistency over time is critical

<table>
<thead>
<tr>
<th>Category</th>
<th>Fixed (F)</th>
<th>Variable (V)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage/Rent</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Labor</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Utilities</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Packaging Supplies</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Advertising</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Seeds/Grain</td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Equipment Loan</td>
<td>F</td>
<td>V</td>
</tr>
</tbody>
</table>
Break-even Formula

• Unit Contribution Margin (UCM)
  – UCM = Selling price – Variable costs

• Contribution Margin Ratio (CMR)
  – CMR = UCM/Price

• Break Even Point in Units
  – BEP(units) = Fixed costs/UCM

• Break Even Point in Dollars
  – BEP($) = Fixed Costs/CMR

Example...有机苹果黄油

Selling Price = $10.00/16oz jar

Variable Costs:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$3.00</td>
</tr>
<tr>
<td>Labor</td>
<td>1.00</td>
</tr>
<tr>
<td>Distribution</td>
<td>1.00</td>
</tr>
<tr>
<td>Shipping</td>
<td>.50</td>
</tr>
</tbody>
</table>

Variable total $5.50
Price minus Variable Costs = UCM

10.00 – 5.50 = 4.50

$4.50 is the amount ‘contributed’ from each unit of sale toward the fixed costs and profits

Organic Apple Butter example

Fixed costs:
- Rent $800
- Telephone 100
- Insurance 50
- Taxes 100
- Loan Payments 300

Total fixed $1350
How many jars of apple butter do you have to sell each month to pay for your fixed and variable expenses?

**BEP (units)**

\[
\text{BEP(units)} = \frac{\text{Fixed Costs}}{\text{UCM}}
\]

\[
\text{BEP(units)} = \frac{$1350}{$4.50} = _______
\]
Pricing & Planning for Profit

- Can you sell 300 jars of apple butter?
  - Supplies? Labor? Production facilities? Market?
- How many over 300 can you sell to make a profit?
- How much profit do you want to make?

Example

You want to make $900/month in profit. How many more jars/month do you need to sell?
The first 300 jars got you to the break-even point
$4.50/jar after the first 300 can contribute to profit
$900/$4.50 = 200 additional jars
Can you sell 500 jars/month?
Summary thoughts...

• Consumers are fickle -- stay flexible
• Never assume that your customer shares your worldview—they probably don’t
• Winning new customers is hard work so go the extra mile to keep the ones you have

Your work for the next 2 weeks

• Worksheet 4.1 (p.186)
• Worksheet 4.2 (p.187)
• Worksheet 4.3 (p.188)
• Worksheet 4.4 (p.189)
• Worksheet 4.5 (p.190)
• Worksheet 4.6 (p.192)
• Worksheet 4.7 (p.193)
• Worksheet 4.8 (p. 194)
• Worksheet 4.9 (p. 195)