Marketing planning

Marketing planning

Marketing planning is the systematic approach to developing marketing objectives and setting out specific activities to implement the marketing strategy to meet those objectives. The result will be a marketing plan.

The marketing plan

Figure 1 shows the layout of a typical marketing plan.

Figure 1 A typical marketing plan

Marketing planning: the systematic approach to developing marketing objectives and setting out specific activities to implement the marketing strategy to meet those objectives.

Expert tip

Make sure you know the difference between a marketing plan (the systematic approach to organising marketing activities) and a marketing strategy (the overall integrated approach to marketing a product, e.g. the 4Ps).

Benefits of a marketing plan

A marketing plan can be complex, take time to prepare, be difficult to understand and lead to inflexibility. However, a properly drawn up marketing plan will make sure that:

- marketing activities contribute to achieving corporate objectives
- marketing activities are integrated
- resources are used efficiently in a planned way
- employees are informed and committed to the plan
- the review and monitoring stage prepares the organisation for change

Promotional elasticity of demand (PrED): measures the degree of responsiveness of demand for a good to a change in promotion. Demand can be promotion elastic or promotion inelastic.

Elasticity and its usefulness in marketing planning

Price elasticity of demand considers the effect of a price change on demand. There are three other measures of elasticity — income elasticity of demand (YED), promotional elasticity of demand (PrED) and cross elasticity of demand (CrossED) — and these can all help a business to plan. Knowing the values can help decide what marketing decisions to make.

Income elasticity of demand (YED)

Consumer income is a huge factor in demand. A recession, unemployment or economic growth will affect how much consumers are willing to buy. A rise in income will lead to a rise in demand for most goods (normal goods). **Income elasticity of demand** measures the degree of responsiveness of demand for a good to a change in consumers' income.

$$\text{YED} = \frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$$

Income elastic demand

Income elastic goods are sensitive to price changes, i.e. a change in income results in a more than proportionate change in demand. The YED of price elasti goods will be greater than 1.

Income inelastic demand

Income inelastic goods are not sensitive to income changes, that is, a change in income results in a smaller proportionate change in demand. The YED of income inelastic goods will be smaller than 1.

Demand may rise with an increase in income (**normal goods**) or fall with an increase in income (**inferior goods**).

Example

A tailor sold 80 suits at $100 a month. His town suffered a rise in unemployment and income fell by 10%. His sales of suits fell to 60.

$$\text{YED} = \frac{\text{\% change in quantity suits demanded}}{\text{\% change in income}}$$

$$\text{YED} = \frac{-20}{80} \times 100 \text{ divided by } -10 = +2.5$$

The positive sign means that demand fell as income fell (suits are a normal good). As the value is greater than 1, the suits are income elastic, meaning revenue will also have fallen from $8,000 to $6,000.

Normal good: a good with a positive YED, meaning that demand changes in the same direction as an income change.

Inferior good: a good with negative YED, meaning that demand changes in the opposite direction to an income change.

Revision activity

1. Produce a table to show the effects on revenue of each of the following:
   (a) An income elasticity of demand of 2 when income rises.
   (b) A promotional elasticity of demand of 1.5 when $50k is spent on advertising.
   (c) Cross elasticity of demand of 0.5 for good A when price of good B rises by 10%.
2. Write notes to illustrate any marketing recommendations you would make based on the table.

Expert tip

Make sure you identify clearly which measure of elasticity is appropriate.
All measures of elasticity assume that other factors remain constant, so make sure you check if any have changed.
Check that you have noted correctly whether the elasticity is positive or negative.

Using income elasticity of demand

- If income levels are changing, a business can use YED to predict what will happen to its sales and alter its marketing mix appropriately. For example, if unemployment is forecast to rise, a business may consider lowering price or using lower quality resources to cut costs and prices.
- If a business is selling an inferior good at a time of rising incomes it may need to consider improving the quality.

Promotional elasticity of demand (PrED)

Promotional activity is a key factor in increasing sales. **Promotional elasticity of demand (PrED)** measures the degree of responsiveness of demand for a good to a change in promotion spending.

Promotion elastic demand

Promotion elastic goods are sensitive to changes in promotion, i.e. a change in promotion results in a more than proportionate change in demand. The PrED of promotion elastic goods will be greater than 1.

Promotion inelastic demand

Promotion inelastic goods are not sensitive to promotion changes, i.e. a change in promotion results in a smaller proportionate change in demand. The PrED of promotion inelastic goods will be smaller than 1.

$$\text{PrED} = \frac{\text{\% change in quantity demanded}}{\text{\% change in promotion spending}}$$

Example

A shop sold 40 kettles a week for \$10 each. The manager increased spending on local newspaper adverts from \$30 to \$36 and sales rose to 44.

$$\text{PrED} = \frac{\text{\% change in quantity kettles demanded}}{\text{\% change in advertising spending}}$$

$$\text{PrED} = \frac{10}{20} = +0.5$$

The positive sign means that demand rose as promotion spending increased. As the value is less than 1, the kettles are promotion inelastic but revenue has still risen from \$400 to \$440. The adverts have been effective in raising revenue.

Cross elasticity of demand

The price of other goods may be important in determining the demand for a good. A rise in the price of margarine may cause an increase in demand for butter (substitute good). A rise in the price of fuel may cause a decrease in the demand for large engine cars (complementary good). **Cross elasticity of demand (CrossED)** measures the degree of responsiveness of demand for a good to a change in the price of another good.

A positive value indicates that the two goods are substitutes for each other. A negative value indicates that the two goods are complementary. A very low value means that the two goods are not related.

$$\text{CrossED} = \frac{\text{\% change in quantity demanded}}{\text{\% change in price of another good}}$$

Example

Sales of books in a city fell from 60,000 per week to 50,000 when the price of e-readers fell from \$200 to \$160.

$$\text{CrossED} = \frac{\text{\% change in quantity books demanded}}{\text{\% change in price of e-readers}}$$

$$\text{CrossED} = -16.67 \text{ divided by } -20 = +0.83$$

The positive sign means that demand for books is positively related to changes in the price of e-readers so these are substitute goods.

Expert tip

It is important to consider whether income, promotional and cross elasticities are positive or negative. Check carefully as this determines the effect of the changes on demand.

Cross elasticity of demand (CrossED): measures the degree of responsiveness of demand for a good to a change in the price of another good.

2 State two advantages of using demand elasticities to a marketing manager.

3 Calculate the value of the following elasticities:

(a) Income elasticity of demand when income falls by 10% and demand for good A falls by 15%.

(b) Promotional elasticity of demand when sponsorship costs increase by 6% and demand for good A rises by 10%.

(c) Cross elasticity of demand when the price of good A rises by 15% and the demand for good B falls by 10%.

Product development

Product development involves creating products that are new or different so that consumers can see new or added value. It is important because all products will eventually enter the decline stage of their life cycle and need to be replaced.

The product development process

The product development process is shown in Figure 2.

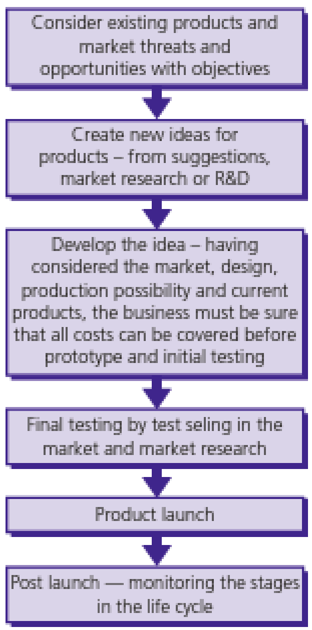

Figure 2 The product development process

Product development: the creation of products that are new or modified so consumers will see new or additional benefits.

Sources of new product ideas

Ideas can come from inside or outside a business, but many will come from research and development programmes, which generate and develop ideas from elsewhere. Other sources include:

- research and development department
- universities and government research centres
- market research and customers
- sales and production staff
- meetings to generate ideas

It is important to check that ideas will be saleable in the market. Few initial ideas become selling products.

Revision activity

Use a diagram to show how product development is linked to the following:

- product life cycle
- business objectives
- product portfolio
- market research

Promotional campaign models — AIDA and DAGMAR

These provide a framework for deciding what kind of promotional methods to use and how to measure their effectiveness.

AIDA

The **AIDA (Attention, Interest, Desire, Action) model** takes a business through the stages a customer goes through when deciding to buy by analysing the objectives of a promotional campaign and generating ideas matched to each stage so that consumers are taken along until they decide to buy.

Table 1 The AIDA model

	Purpose	Method	Outcome
Attention	• Introduce product or brand. • Make consumer aware and interested in learning more.	• Bold words, striking graphics, bright colours, repeated words, logo. • E.g. television advert, billboard	• Awareness of product/ brand. • Remembers later when deciding to buy.
Interest	• Make consumer think about how the product might meet needs. • Possibility of buying introduced.	• Describes features. • Promises rewards/satisfaction. • Technical attributes. • Compares with competition • E.g. Clip coupons, info ads	• Consumer actively thinks of product. • Consumer makes inquiries.
Desire	• Make consumer think product meets his or her needs. • Make consumer think he or she 'must have' the product.	• Offers/demonstrations. • Information on where and how to buy. • Unique benefits shown. • E.g. instore display, selling.	• Consumer finds out how to buy. • Serious thought about buying.
Action	• Make consumer decide to buy.	• Purchase point. • Order form. • Personal selling. • E.g. sales staff, order forms.	• Consumer buys or takes action towards buying.

AIDA (Attention, Interest, Desire, Action) model: a model describing the stages a customer goes through when deciding to buy a product.

DAGMAR (Define Advertising Goals for Measured Advertising Results): a model that is used to measure how effective advertising or other promotional methods are, using AIDA as part of DAGMAR.

DAGMAR

DAGMAR (Define Advertising Goals for Measured Advertising Results) builds on AIDA, assuming consumers will move through the stages, then goes on to measure how effective a promotional campaign is. At the start, attention will be zero but should rise as the promotions take effect. Successive stages will see smaller percentages of consumers in them and this measurement can inform the way the campaign progresses.

Expert tip

When using AIDA or DAGMAR, make sure you relate these models to marketing objectives, methods and ways of measuring effective marketing.

Revision activity

Prepare a presentation to explain how the AIDA model might help a business plan marketing activities for the launch of a new range of DIY tools. Include an answer to a question about the value of DAGMAR.

Forecasting marketing data

The need to forecast marketing data, especially sales

Forecasting may:

- enable a business to determine what changes are taking place in the market
- detect business opportunities and what marketing mix may be appropriate
- help pinpoint position on a product life cycle
- enable a business to analyse the actions of competitors

Moving average method (time series analysis)

Trend analysis or **moving average forecasting** assumes that the patterns or trends of the past will continue into the future. For products affected by regular changes, e.g. seasonal variation, time series analysis combines the moving average of past data in order to arrive at a forecast for the next few time periods.

A typical application is for sales. It does this by dealing with three components of a set of data over time.

- the underlying **trend**
- predictable **cyclical or seasonal variations** from the trend.
- random, unpredictable events

Moving average calculations

The data is inspected to see if there is a regular pattern of changes in time and then the moving average period is chosen accordingly, e.g. over a 3-year cycle (3-year moving average) or quarterly (4-quarter moving average).

A typical application is for sales. It does this by dealing with three components of a set of data over time.

- the underlying **trend**
- predictable **cyclical or seasonal variations** from the trend.
- random, unpredictable events

Moving average calculations

The data is inspected to see if there is a regular pattern of changes in time and then the moving average period is chosen accordingly, e.g. over a 3-year cycle (3-year moving average) or quarterly (4-quarter moving average).

Very often quarterly figures show a seasonal variation and the same procedure is employed except the quarters have to be centred by adding the four quarter totals in pairs and dividing by two.

Evaluating moving average method of forecasting

This method produces a forecast that takes account of regular variations so is more accurate than simply projecting a trend line. Like any forecast it assumes that:

- the data used is accurate
- the future will behave in a similar way to the past

Moving average forecasting: a method that takes account of regular variations (typically seasonal) by combining the moving average value of a set of data over time.

Trend: the average change for each time period, which shows the overall pattern of movement of a set of data.

Cyclical or seasonal variation: the regular variation from the trend, often due to seasonal factors, which is the value for each time period minus the trend.

Expert tip

Calculations can take a long time. Examiners are likely to present you with a partially completed table and ask you to finish it, or ask you to comment on the way the moving average method is used in forecasting.

Example

Calculating a 3-period moving average, cyclical variation and forecasting

Year	Sales ($000)	3-period total	3-period moving average or trend	Cyclical variation	Average cyclical variation
2004	60				
2005	54	60+54+48=162	54	0	−0.65
2006	48	54+48+64=166	55.3	−7.3	−7.8
2007	64	167	55.7	+8.3	+9.5
2008	55	169	56.3	−1.3	−0.65
2009	50	175	58.3	−8.3	−7.8
2010	70	180	60	+10.7	+9.5
2011	60	182	60.7	−0.7	−0.65
2012	52				
2013					
2014					

The 3-period moving average will be the underlying trend of the data over time.

1. To calculate the 3-period totals add up each set of 3 years in turn and place the total opposite the middle year (col 3).
2. Divide each total by three to give the 3-year moving average or trend (col 4).
3. Calculate the cyclical variation by yearly sales minus trend (col 5).
4. For a graphic representation plot on a graph the 3-period moving average or trend and extrapolate this into 2012 and for each year in the 3-year cycle, add the average cyclical variation to the forecast point on the trend line for each year (see Figure 3).

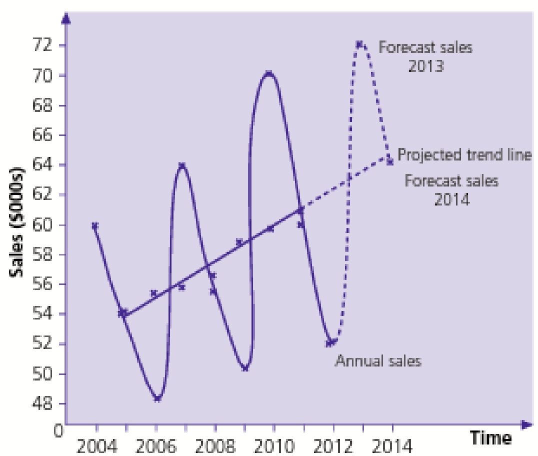

Figure 3 Moving averages: graphical forecast

Coordinated marketing mix

Developing a coordinated marketing mix in relation to objectives

A marketing mix is only successful if it achieves the marketing objectives set out in the marketing plan. These objectives must be clear and relate to the overall business objectives.

- The 4Ps must be integrated and reinforce each other.
- The marketing mix must take account of position in the product life cycle and market conditions.
- There should be research and development for new products to replace older ones.
- Marketing strategies should be within their set budgets.
- Flexibility to respond to change should be built in.

Expert tip

When discussing the marketing mix, make sure you relate the 4Ps to each other in an integrated way, showing a strategic understanding in relation to objectives and/or models such as AIDA.

Globalisation and international marketing

Globalisation

Globalisation is the growing integration and interdependence of economies and cultures and involves increased trade, movement of capital and people. It results in:

- large increases in trade between countries
- large increases in money moving between countries and in **foreign direct investment (FDI)** by governments and transnational corporations
- increasingly similar products and services being sold across the world
- a large increase in outsourcing to different countries for components or services
- large increases in international travel and instant communication across the world
- increasingly similar cultures and attitudes across the world
- converging income levels across the world

In particular, economic globalisation includes:

- decreasing barriers to trade
- increasing ease of moving capital and money across countries
- increased incentives for foreign direct investment

Globalisation: the growing integration and interdependence of economies and cultures and involves increased trade, movement of capital and people.

Foreign direct investment (FDI): when a business sets up production or distribution facilities in another country.

8 Identify four features of globalisation.

9 State one implication of globalisation for marketing in:

(a) a business's own country

(b) other countries

Increased globalisation: the implications for marketing

Globalisation is a developing phenomenon. It brings great opportunities and also more risks as businesses are increasingly able to operate in more than one country.

Opportunities

- Falling tariffs and other barriers to trade mean it is cheaper and easier to sell to other countries.
- Costs fall as more efficient, lower-cost labour and materials can be accessed, so products can be priced lower.
- Increasing incomes and access to information sources mean consumers are exposed to marketing activities and are more able to buy.
- Large markets are expanded, e.g. in Brazil, China, India and Africa.
- Internet-based marketing enables international marketing, even for smaller businesses.
- Global branding becomes possible.

Risks

- Small or nationally based businesses face increasing competition from global businesses.
- Global businesses have to fund ever more expensive marketing campaigns.
- People focus on their own culture and reject global products.

Strategies for international marketing

The importance of international marketing

In today's world of interdependent economic relationships, even smaller businesses can consider expanding into selling in another country, especially as the internet enables communication to particular target groups with cheap promotion and distribution. This widens the marketing opportunities to possible customers. Many developing countries offer growing consumer bases for businesses to sell to. These emerging markets are now actively encouraging businesses to set up and sell to their populations.

Any business considering international marketing should be aware of the possible costs and resource implications, as well as making sure that this move matches their business objectives.

Factors that influence a decision to enter an international market

A business thinking of entering an international market might consider the following:

- Escaping the risks of competition at home by finding new markets abroad.
- Meeting objectives of growth and expansion by finding new markets abroad.
- Finding demand that may not exist in the home market, especially for specialist products.
- Increasing size to find economies of scale and lower costs.
- The availability of finance and business expertise.
- Risks of operating in different cultures, legal arrangements and marketing environment.

Identifying and selecting an international market

Once a business has decided to enter an **international market** it must decide where to market. Most businesses begin by looking at one or a small number of countries to export to, the choice being based on the following:

- Business objectives of growth, product development, and sales.
- Business attitude to risk.
- Availability of resources including finance and personnel.
- Product type — aircraft have fewer sales possibilities than jackets.
- Market research into:
  - the size and growth of the market
  - the economic arrangements including tariffs, exchange rates, laws and regulations, incentives available
  - market competition
  - costs of marketing and distribution
  - possibility of partnership agreements
  - political and cultural arrangements

Using this information a small number of countries can be investigated in detail before a final choice is made.

A business that wishes to expand quickly, has a variety of products, is prepared to take a risk and has large amounts of finance, a skilled marketing department and other managers is likely to choose a different new market than a small business that cannot afford to take a risk and is prepared to expand slowly over time.

Methods of entering an international market

- **Merging with or taking over an existing business** — this has the advantage that there will be production and distribution networks and trained staff. The disadvantage is that two different organisation cultures and workforces have to be put together.
- **Exporting** — exporting means marketing and selling products in another country. It involves finding an importer/agent and transport and possibly dealing with the government. There may be trade tariffs or quotas to take account of but the business will retain control of the marketing process.
- **Licensing** — this is when a business licenses another business to distribute and sell a product in return for a fee. Costs are low and there is no risk to the business. However, there is also no control over the marketing process.
- **Franchising** — the business charges a fee to other businesses for the right to use trademarks, logos, promotional material and all that goes with a brand. Many services are sold internationally in this way, e.g. McDonald's and Avis. Set-up costs are small but income is limited to what has been agreed.
- **Joint ventures** — this occurs when two businesses contribute resources to a project. Knowledge, technology and marketing are shared and so are the risks and rewards. Trust is essential as there may be conflict about information or decision making.
- **Foreign direct investment (FDI)** — FDI involves building factories and/or offices. There must be an associated marketing plan. FDI can get round trade barriers, use lower labour costs, reach lower tax rates and government incentives and provide direct access to another country's market. Many large businesses now take this route despite the high initial costs and the time taken for investment.

Revision activity

Finns Furniture manufactures office furniture — chairs, desks and storage units. It produces budget low-cost pieces and a more expensive luxury range as well as offering a one-off design service. The directors are considering selling these products in other countries to enlarge the firm's international presence.

Produce a report for the board of Finns Furniture that briefly:

(a) Sets out the factors they might consider in choosing other countries in which to operate.

(b) Considers three different methods of entering the international market.

10 Identify three possible methods a business might use to enter an international market.

11 State two advantages of each method.

Pan-global marketing: marketing products and/or services to global markets in many different countries.

The choice between developing pan-global or local marketing

Pan-global marketing is marketing products and/or services to global markets in many different countries. All marketing activities must be integrated across national boundaries and global branding developed using the same logos, advertisement and promotion messages so that everyone receives the same global message about the business and its products. Businesses such as Suzuki and Samsung spend large amounts of money in doing this.

An international marketing business has to decide between:

- Pan-global marketing — little or no marketing variation across the world.
- Maintaining local differences within a pan-global approach.
- A multi-domestic strategy, which treats each country as a separate market.

Maintaining local differences in marketing might be needed because having a standard marketing approach in every country ignores variations between countries and consumers' needs may not be met. Local marketing takes account of these differences. It maintains the global approach but may adopt varying practices adapted to local markets. For example, adverts in one country may feature people who are obviously from the country in question, names may vary, recipes use local ingredients. A business engaging in local global marketing must make sure that it does not lose the overall global branding message.

Factors encouraging pan-global marketing

- Large size and global presence.
- A technical product with high development costs that can be spread.
- Experience of being involved in international marketing.
- Consumer behaviour/segment similar across world.
- Standard distribution methods.

Factors encouraging maintaining local differences in marketing

- Small size and limited international markets.
- Little experience in international marketing.
- Varying regulations and cultural attitudes in product area.
- Local distribution methods.

Choosing a strategy to develop a global market

Planning an international marketing strategy is the same process as planning a domestic marketing strategy but on a bigger scale (see Figure 4).

Figure 4 Stages in choosing an international marketing strategy

Revision activity

Former pilot Guan Lee set up Airgo, a small airline company, using a number of contacts in a range of finance companies, airlines, airports and government aviation ministries. Airgo flew passengers and freight between local airports, offering cheap flights. It was able to do this because it provided no inflight services and internet-only ticketing and checking-in plus charging for baggage. The number of inflight staff was the minimum needed for legal requirements.

Guan soon realised the domestic market was saturated. He began investigating flying to and from other countries, and research indicated that there were real possibilities to get business in an international market. He made the decision to go ahead.

(a) Explain how Airgo might set about deciding which international markets to operate in.

(b) Evaluate the most appropriate method for Airgo to use in entering the international market.