

# Marketing

## Your Business

BUSINESS COACH | SERIES

- For the size of your business
- How to get started
- A step-by-step guide



# Marketing for Enhanced Profits

Simply stated, marketing encompasses the communications and activities a business uses to attract and convince customers to purchase or use the company's goods and/or services.

## The Situation

You don't consider your business a big operation. And you may tend to think that marketing is something only large corporations can afford. Although you've made efforts to build your company's name, you are simply not sure that you have the means to compete with the larger enterprises that dominate your line of business.

## The Solution

At BMO Bank of Montreal®, we are committed to helping Canadian businesses develop and succeed.

The purpose of this Business Coach is to share our knowledge and expertise with Canadian businesses that recognize the need to market more aggressively but are not quite sure how to go about it. From our experience dealing with businesses of all shapes and sizes, we understand that marketing can be an effective profit-enhancing tool no matter how big, or small, it is.

**TIP** | The best marketing is often the least expensive – good public relations.

This booklet is designed to help you market your business more effectively, based on the following premises:

- Customers do not normally “beat a path to your door.” However good your product, however much you believe your service is needed, you still have to sell it to customers.
- There are advantages to being an independent business. Independent businesses can often move quickly, change course more easily, and usually offer better and more personalized service.
- As an independent business, you should confine yourself to something you can handle. You don’t have to be all things to all people.
- Timing is critical; being too early is often as bad as being too late.
- Customers always give messages, but not necessarily verbally. React to your customers. Remember, it’s not only what they say, but what they do, that counts.

This booklet discusses how to give customers what they want, when they want it, and at a profit.

In other words ... marketing.

## The Nine Essential Steps

The following summarizes the steps that lead to successful marketing:

1. Define the market
2. Choose your channels of distribution
3. Establish pricing policies and structure
4. Identify unique features/problems/opportunities
5. Set objectives
6. Spell out the marketing strategy
7. Decide on advertising and promotion
8. Prepare budgets
9. Measure and review.

STEP

### Define the market

A too-broadly defined market; a wrongly identified customer; not knowing your competition; entering a market that is declining or, conversely, overcrowded in the startup phase – these can all spell disaster. The more thoroughly and accurately you answer the following questions, the better your chances of success.

- What business are you in?

Be specific: “men’s clothing” is too broad. Is the clothing custom-made or ready-made? Is it suits or accessories, sports or formal wear?

- Who are your customers?

Create a customer profile: age, gender, postal code, address, employment type, income bracket, and so on.

- Who are your competitors?

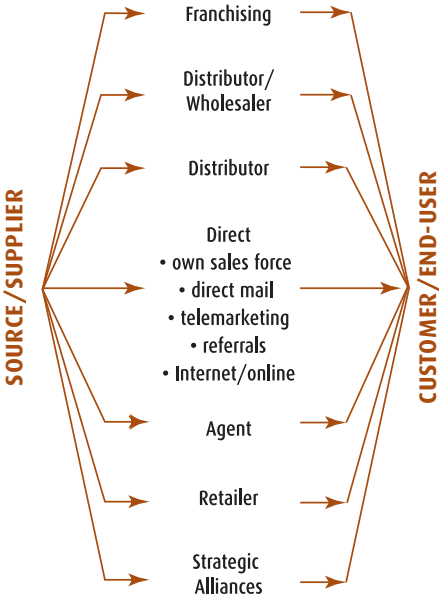
Where are they? How do they differ from you? Are they successful? If not, why? How do/will they react to your product offering?

- What stage is the market for your product/service in?

Is it in its early introduction phase, enjoying growth, or has it reached maturity or saturation, or even begun decline? Where does your product fit in?

**TIP** | Because you may be too close to your product/service, it can be useful to get a third party involved in either creating your marketing material or reviewing it.

## Channels of distribution



The diagram above shows the different routes between you and the customer or end-user. Each route has its own advantages and disadvantages. Select the one that most closely meets your demands financially, the one best suited to your circumstances. Keep in mind that mixing distribution channels can be counterproductive. If you have to use more than one, separate them geographically. For example, use your direct sales force in your home province and distributors in the others.

**TIP** | It is far more difficult to find new customers than it is to retain your existing customers. Don't ignore your current customer base when prospecting.

- **Direct.** This includes telemarketing, direct mail, and your own or a shared sales force.

Pros

- total control over distribution
- immediate feedback
- quick response
- highest margins

Cons

- expensive (unless shared with other suppliers)
- delivery and return costs
- potentially limited distribution

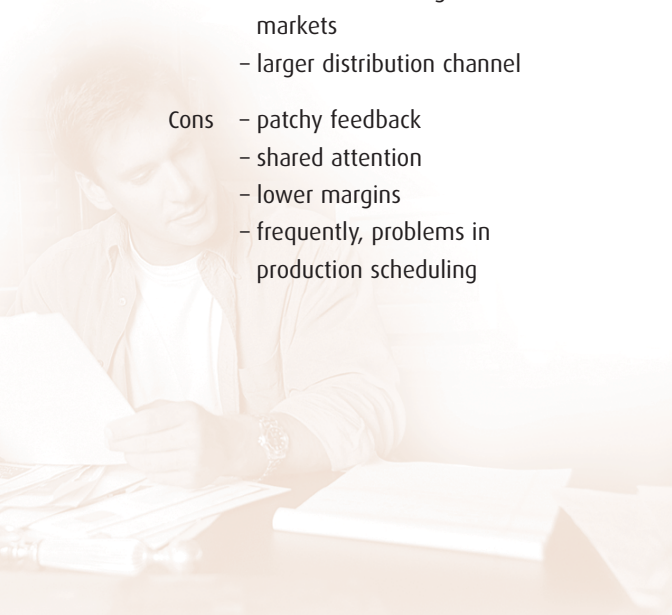
- **Distributor.** You sell to a distributor or wholesaler who stocks your products and then sells to retailers or end-users at a markup.

Pros

- less inventory
- few or no selling costs
- fewer in-house costs  
(you sell in bulk or quantity)
- intimate knowledge of their markets
- larger distribution channel

Cons

- patchy feedback
- shared attention
- lower margins
- frequently, problems in production scheduling



- **Agents.** Agents sell your product – and others – for a commission, which they receive after the sale is made and the product is delivered.

Pros – inexpensive  
– far reach  
– intimate knowledge of market

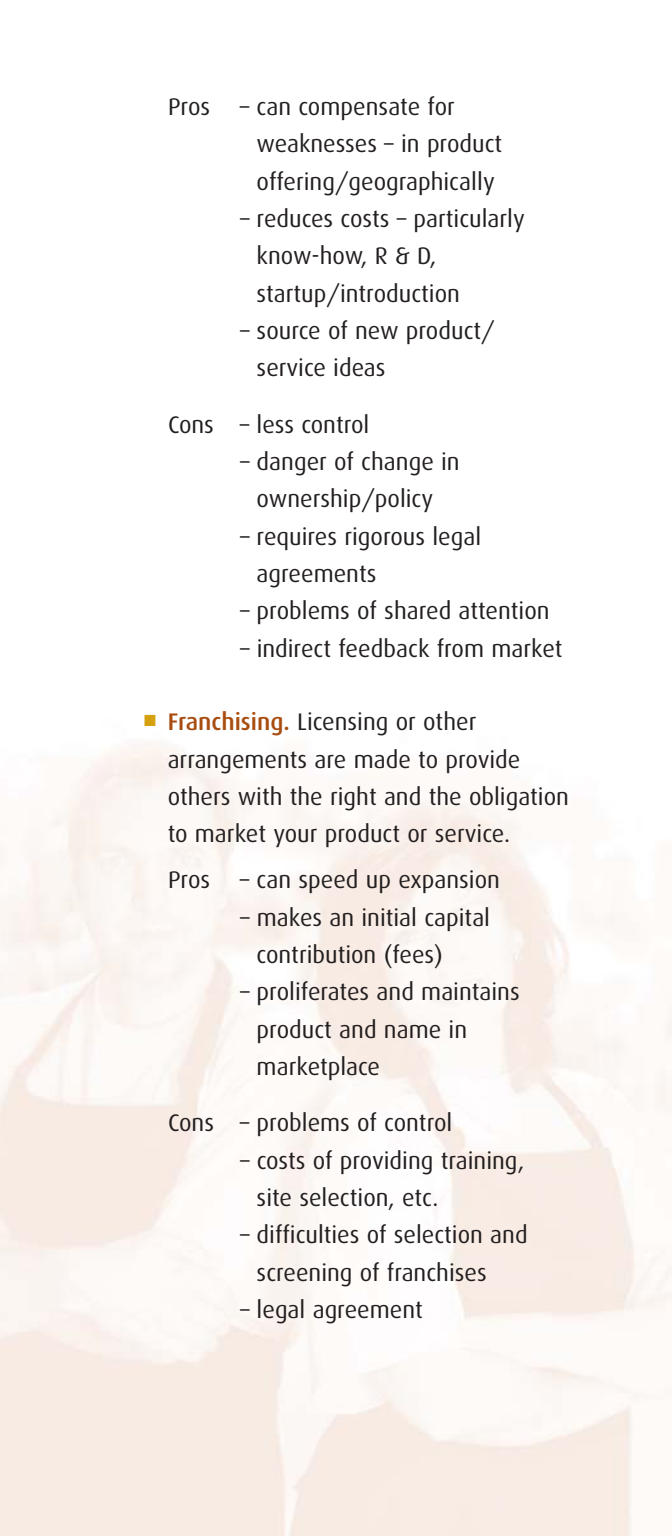
Cons – little loyalty  
– shared attention  
– inventory planning difficult

- **Retailers.** The retailer, to whom you may sell directly or through a distributor or wholesaler, is probably the most common way to market consumer goods.

Pros – know their market/customers  
– can cooperate in floor displays/  
promotions, etc.  
– easy to monitor

Cons – shared attention  
– returns  
– little control over  
pricing/markdowns  
– difficulty in forecasting demand

- **Strategic alliances.** This general term includes joint ventures, joint marketing, and/or production agreements. For our purposes, it involves having an agreement with a company that is strong in an area or aspect of business where you are weak. You share the rewards/profits, ownership and so on, as well as the risks.

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- Pros
- can compensate for weaknesses – in product offering/geographically
  - reduces costs – particularly know-how, R & D, startup/introduction
  - source of new product/service ideas
- Cons
- less control
  - danger of change in ownership/policy
  - requires rigorous legal agreements
  - problems of shared attention
  - indirect feedback from market

■ **Franchising.** Licensing or other arrangements are made to provide others with the right and the obligation to market your product or service.

- Pros
- can speed up expansion
  - makes an initial capital contribution (fees)
  - proliferates and maintains product and name in marketplace
- Cons
- problems of control
  - costs of providing training, site selection, etc.
  - difficulties of selection and screening of franchises
  - legal agreement

**STEP**

## Establish pricing policies and structure

Your pricing and your profit margin\* will be affected by the distribution channels you have chosen, your costs and the price you believe the customer will pay. In the following example, there's a difference of \$60 between your cost and the end purchase price – and you can see where the difference has gone.

### 1. Manufacturer

Cost: \$40	Sells @ \$56
Margin: 28.6%	Markup: 40%

### 2. Distributor

Cost: \$56	Sells @ \$70
Margin: 20%	Markup: 25%

### 3. Retailer

Cost: \$70	Sells @ \$100
Margin: 30%	Markup: 43%

### 4. Customer

Cost of end product: \$100  
(See the companion Business Coach booklet *Making Sense of Financial Terms and Jargon* for more information on terms such as “markup” and “margins”.)

**TIP** | Think like a customer, not like a manufacturer or vendor.

\* Margin or profit margin is the difference between the cost of buying or producing something and the price for which it is sold.

We have discussed the pros and cons of various forms of distribution channels. Now we have to inject the pricing consideration.

- Give careful consideration to the sales structure to be used to sell your product or service
- Remember that while direct distribution margins may be higher, you may get more limited distribution; conversely, margins may be slightly less with alternative distribution methods, but wider distribution may lead to more sales and therefore greater net profits
- It is important to do a cost analysis – there may be a point at which it is not profitable to use certain distribution methods because they result in prices that are too high to be competitive, thereby potentially pricing your product out of the market

Don't immediately go for the most direct (usually the highest risk) or the least direct (often an agent and the lowest apparent cost) channel. Consider carefully:

- What service, follow-up and advice does your product/service require?
- What do competitive products/services sell for?
- Is delivery required?
- Where do customers usually buy your type of product/service?
- Who makes the buying decisions?

- What are the normal methods and terms of payment?
- From whom will you obtain feedback?
- What lead time do you need to produce the products?
- How much can you afford to tie up in inventory?

All of these will affect your decision. Be flexible so that you can change as your volume and confidence grow and your financial capacity improves.

And, beware of going “direct” when:

- you have only one product to offer, or
- your unit price is small, and invoicing and other costs are therefore disproportionately high.

#### STEP 4

### **Identify unique features, problems and opportunities**

Talking to the people who use your product/service is an excellent way to discover what makes your offering unique or special. Do customer research through informal focus groups, telephone follow-ups or feedback questionnaires and ask:

- How do customers use your product?
- What do they say about your product compared to the competition?
- Is there customer loyalty, or are price and convenience more important?
- Are delivery and service important? More important than price?

- What do people say about your type of product? What are the common complaints?
- What makes your product different from the others?

Then ask yourself:

- How can I best describe or demonstrate these features and benefits?

## 5 STEP

### Objectives

All businesses need objectives to keep on track, to keep employees focused, and to measure results against expectations. In marketing, the more specific your objectives, the better managed your marketing efforts will be. Don't just impose the objectives; get your people involved in setting them – to “buy into” the plan.

- State overall objectives by monthly, quarterly and yearly dollar volume. Also determine short-term (12 months) and long-term (60 months) objectives.
- Break dollar volume down into categories, such as:
  - region
  - store or outlet
  - product
  - salesperson

**TIP** | Marketing messages should contain benefits for your customers such as: save time, save money, enjoy convenience.

**STEP**  
**6**

## The marketing strategy

At this point, you can pull it all together by creating your marketing strategy. This is a written statement of all the items covered so far, and it will:

- form part of your Business Plan (see the companion Business Coach booklet *Developing Your Business Plan* on this topic), and
- become the basis for a lot of your Cash Flow Budget Plan (see Business Coach booklet *Planning Your Cash Flow* on this topic).

**STEP**  
**7**

## Advertising and promotion

You'll have to decide what is the best way to reach your customers in order to tell them about your product.

- How do customers find out about your products (personal referrals, advertising, flyers, company web site)?
- Should you use mass media (radio, local television, newspapers, magazines, links to industry-related web sites)?
- Does your product lend itself to a point-of-sale display, or to an online demonstration?
- Is it difficult to get people to try your product?

- What does the competition do? How can you do better?
- Can you get key influencers to endorse your product/service?

### **Internet and e-business advertising**

In recent years, Internet use by the general public worldwide has grown so much that any business that does not have a presence in cyberspace risks being left behind.

- Can your product/service be sold through a web site, or should you just provide information for follow-up through other channels?
- Would it make more sense to sell your product/service through an auction site such as eBay?
- Is your site built so that it can be “seen” by the popular search engines such as Google and Yahoo?
- Is your web site easy to navigate? Can potential customers find what they are looking for quickly and buy it on the spot if they want?
- Would making your site interactive boost the potential for sales?
- Should you link your site to other related sites to take advantage of people’s tendency to surf?

**TIP** | Doing one thing very well beats doing several things poorly. Focus.

**STEP 8**

## The budgets

Budgets (see the companion Business Coach booklet *Planning Your Cash Flow* on this topic) include anticipated income and expenditures over given periods of time. They become an integral part of your business plan.

Your marketing budget must include, at a minimum:

- Costs: selling, advertising, promotion, discounts (if any), setting up and maintaining a website. Each should be allocated by product and period – at least quarterly or, preferably, monthly.
- Income: by product or category, by type of customer where applicable (head office versus distributors), estimated monthly.

**STEP 9**

## Measurement and review

As essential as the planning process, a review system is required to analyze variances and prompt you to take action where appropriate.

- Budgets should be reviewed at least quarterly (more frequently during promotions or other special periods such as new product launches or in-store promotions).
- All those responsible for marketing strategy execution should be involved in the review.
- Be flexible – modify or change your plans if and when it's necessary.

- Build in more research and feedback where there are gaps or unexplained deviations.

## Sources of Marketing Information

### External

- Libraries
- Publications, particularly magazines with annual statistical reviews
- StatsCan, which has offices in St. John's, Halifax, Ottawa, Toronto, Winnipeg, Edmonton, and Vancouver  
[www.statcan.ca](http://www.statcan.ca)
- Trade associations: annual statistical reviews; meetings, where you can pick up and exchange information, web sites.
- Lawyers, accountants, other professionals: in addition to retaining specialists on staff, many firms publish newsletters, annual statistical reviews, etc.
- The Internet

### Internal

- Existing records: customer accounts, sales calls records, warranty claims, returns, complaints
- Research: business reply mail, warranty registration cards, observing customers in retail stores, market research interviews.
- Company web site: feedback from customers

At BMO Bank of Montreal, we are committed to helping Canadian businesses develop and succeed. To this end, we've created a Business Coach Series that provides information and knowledge that can optimize the value of your company's financial resources. The booklets that make up the Series focus on essential areas of financial management allowing you to focus on operating your business more effectively.

## For more information on how BMO Bank of Montreal can help your business:

- ✓ talk to your Commercial Account Manager
- ✓ call BMO Bank of Montreal Direct Banking for Business at **1 877 262-5907** or
- ✓ log on to **[www.bmo.com/business](http://www.bmo.com/business)**

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