Developing a Marketing Plan

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Traditional Marketing Channel

Consumer

Retailer

Wholesaler

Processor

First Handler

Producer

Inputs

Emerging Marketing Channel

Customers

Retailers

Wholesaler

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Marketing Strategy

Most successful businesses are customer oriented. Customer oriented businesses design their marketing strategies around the needs of their customers.

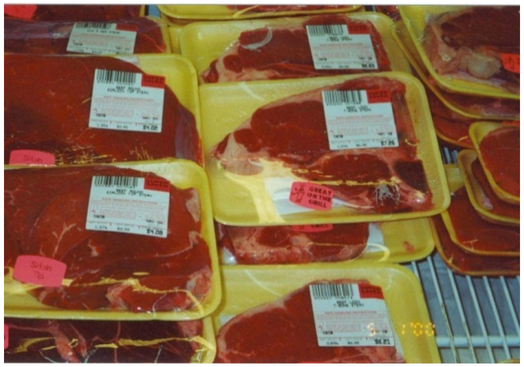
Product oriented businesses risk developing a product that won't sell because they are focused on what they can and want to produce.

Step 1: Define Your Target Market

Define what you are selling to your target market

- Product or Service or Both
- Commodity vs. Differentiated Product and/or Service
- Business to Business vs. Consumer Sales

Products and/or Services



- Commodity
  - Generic, little differentiation
  - Many competitors
  - Supply driven
  - Marketing decisions are primarily related to timing and location
- Differentiated
  - Differentiated by something that affects value
    - Processing, quality characteristics, branding
  - Less Competitors
  - Demand Driven

Market Segmentation

The process of identifying customer preferences and dividing the larger market into sub-markets. Common forms:

- Geographic (by location)
- Demographic (age, sex, race, education, income, etc.)
- Psychographic (lifestyle characteristics, behavior patterns (product-use characteristics), beliefs, values, etc.)

Step 2: Estimate Your Potential Sales Volume

- Commodities – no problem
  - Production usually equals sales
- Differentiated products and/or services
  - Demographic statistics for the geographic target market and conservative estimate of market penetration
  - Surveys of (potential) customers
  - Similar examples from other regions or products/services

Step 3: Define How Your Product or Service is Unique

- What does it do for the customer?
- Why does the customer want to pay for it?

Step 4: Define Who Your Competitors Are

- How are you positioned relative to your competitors?
  - Advantages?
  - Disadvantages?

Step 5: Distribution and Packaging

- You need to decide on four things
  - Scope
  - Movement
  - Packaging
  - Delivery Schedule and Handling

Step 5: Distribution and Packaging

- Scope
  - How widely do you want to distribute your product and/or service?
  - This should align with the definition of your target audience segment.
  - Your distribution scope can be viewed as:
    - Intensive – widespread placement
    - Selective
    - Exclusive – prestigious placement

Step 5: Distribution and Packaging

- Movement – Distribution channels
  - Direct marketing options
    - CSA's, Farmers Markets, Roadside Stands, On Farm Store, mail orders, etc.
    - Advantages
      - Cuts out the middle person
      - Higher net profit margin
      - Get to know your consumer better
    - Disadvantages
      - Time consuming/new skill set
      - Potentially low volume

Step 5: Distribution and Packaging

- Movement – Distribution channels
  - Intermediary options
    - Wholesalers, distributors, brokers, handlers, cooperatives, retailers, etc.
    - Advantages
      - They help you move your product in large volumes
      - They reach markets you may not have access to
    - Disadvantages
      - Lower net profit margin
      - Disconnect with consumer

Step 5: Distribution and Packaging

- Packaging
  - Packaging can be both functional and promotional
  - If delivery is on the retail level, packaging standards exist that must be followed.
    - Food packaging must include common name, net weight, nutrition facts, ingredients, and your business address.
  - Services need packaging, too.
    - i.e. mail order delivery of meat

Step 5: Distribution and Packaging

- Delivery schedule and handling
  - How often will you make deliveries?
  - For perishable products and services, delivery schedules are critical.
    - i.e. how often will you give farm tours?
  - Intermediaries expect you to reliably meet delivery commitments.

Step 6: Pricing

- How will you price your product or service?
- Two main factors to consider
  - Your costs
  - Prevailing market prices
- This is true for commodities as well as differentiated products and services.

Step 6: Pricing

- Commodity Pricing Strategies
  - Advanced pricing prior to harvest
  - Cash pricing at harvest
  - Delayed pricing (and storage) after harvest
- These strategies can be combined and they may or may not involve using Board of Trade contracting tools.

Step 6: Pricing

- Differentiated Pricing Strategies
  1. Penetration or promotional pricing
  2. Skim pricing
  3. Cost-oriented pricing
  4. Relative pricing
  5. Flexible or variable pricing
  6. Competitive pricing

- Penetration or Promotional Pricing
  - Involves setting your initial price below your expected long term price in order to penetrate the market
  - Advantage – this does not attract competitors to the market
  - Disadvantage – How long can you sustain the low pricing and stay in business? You need thorough research on the prevailing market price and market size before pursuing.

- Skim Pricing
  - Involves setting a high market entry price to recover costs as quickly as possible before lowering price to long term price
  - "Skim the cream from the top."
  - Disadvantage – this does attract competitors to the market.
  - This strategy works best when you have little or no competition.
    - i.e. patent protection or brand new product

- Cost-oriented Pricing
  - Price is set based on current costs to provide product and/or service and your desired net profit margin.
  - Research is important
    - Make sure you understand your costs
    - Make sure customers are willing to pay
    - Make sure you explore uncertainties.

- Relative Pricing
  - Price is set relative to prevailing market price.
  - Research is important
    - Make sure you understand your costs
    - Make sure you understand market price seasonality and trends
    - Make sure you can make a profit
    - Make sure you explore uncertainties.

- Flexible or Variable Pricing
  - Setting a pricing range and allowing for considerable bargaining based on supply and demand and timing.
  - Works really well for perishable products
  - Research is important
    - Make sure you understand your costs
    - Make sure you understand supply and demand seasonality and trends.

- Competitive Pricing.
  - Price is set as low as you can go in and effort to force your competitors out of the market.
    - At the extreme, this is called predatory pricing.
    - Works better for large, well-capitalized companies
  - Research is important
    - Make sure you can withstand the low or negative profit margin for the period of time it will take for competitors to exit the market.

Step 6: Pricing

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Step 7: Promotion

- Promotional strategies are built around a message
- Promotion and advertising should focus on reaching your target audience with your message
- Once you have your message formed, you decide how you are going to deliver it along with the timing and frequency.

Step 7: Promotion

- Decide first if you want your message to focus on your business image or your product or service
- Product and/or service promotion aims to create immediate sales by presenting a message of how the product and/or service will meet a need of the customer.

Step 7: Promotion

- Image promotion aims to create a clear picture of what you want your business to be known for among your customers
- Important components include your business logo and mission statement

Step 8: Assessing Inventory and Storage Management Needs

- How will you store and deliver your product when needed and still maintain quality?
- How do marketing opportunities and regulatory considerations shape your storage and delivery strategies?

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What is Integration?

- Full ownership of the various stages of production-processing-distribution chain
- Removes price signals between stages
- <u>Vertical Integration is not Concentration!</u>

Vertical Coordination vs Vertical Integration

- Vertical Coordination - the organization of economic activity including all the ways of harmonizing the various stages of production-processing-distribution chain
  - By-passing open price discovery or price signals through "Agreements"

Vertical Coordination includes:

- Strategic Alliances
  - an agreement mutually entered into by two independent firms to serve a common strategic objective
  - eg. Strategic alliance between pork processor and pork producer to produce pigs via certain method at certain quality (Niman Ranch)
- Formal written contracts
- Cooperatives
- Vertical integration

Developing a Marketing Strategy

1. Define Your Target Market
2. Estimate Your Potential Sales Volume
3. Define How Your Product or Service is Unique
4. Define Who Your Competitors Are
5. Distribution and Packaging
6. Pricing
7. Promotion
8. Assessing Inventory/Storage Management Needs

Two Important Points

1. Most marketing experts contend the greatest marketing mistake made is failing to define clearly the target market to be served.
   a) Products don't meet customer needs
   b) Ads attempt to reach everyone and miss what should be the target audience completely
   c) Unprofitable customers become your most common customers
2. Keep the focus on the customer
   a) Only 6% of unsatisfied customers complain, most just go away.
      i. 31% tell family, friends, and colleagues about their bad experience
      ii. For every 100 customers with a bad experience, you stand to lose 32-36 current customers or potential customers.

Questions?

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