3.3

THE SALES PLAN

- Prices And The Market
- Pricing Strategies
- Marketing Segmentation And The Marketing Mix
- The Marketing Process
- Sales And Finance In Marketing
- The Sales Plan Exercise - Calculating Financial Impact Of Sales

PRICES AND THE MARKET

There are a number of different approaches to pricing. Most businesses use a mix of these approaches or use a different approach to different customers and at different times.

How Your Product Or Service Compares

The price of your products and services will, to a certain extent, depend on the competition. Make comparisons based on the following where appropriate:

- How your product performs
- How it looks
- What is its quality?
- How is it packaged and presented?
- Whether your level of service is better or worse than your competitors
- Your image

Do not be afraid of setting a higher price than your competitors if your product or service has advantages over theirs. Customers often associate higher prices with higher quality - therefore it may be that a higher price can help the image or reputation of your products and services.

Pricing Strategies For New Products

If you are offering a new product there are two approaches you could adopt:

- Price Skimming - opts for a high price initially to take advantage of demand for a new product
- Penetration Pricing - attempts to gain a large share of the market for your product before the competition appears on the scene, by setting a fairly low price to dominate the market

What The Market Will Bear

Some argue that the price should be set by what the market would bear, but there are no easy methods for calculating this. If your prices were high would your customer choose another supplier? If you dropped your prices would you gain new customers? Generally if your products are bought infrequently they are more likely to be less sensitive to price change. Alternatively, if your products are bought on a regular basis your customers are more likely to be price sensitive, as they know the price they should pay. You will have to establish a price by looking at the market you are in and your particular product in relation to competitors.

Cost-Plus Pricing

Many businesses use the total of their overheads and drawings to fix a price. Although this may seem a straightforward option it has its drawbacks. For example, if your costs are very low, should your prices automatically be low?

It is more realistic to think in terms of price ranges. The lowest price will be fixed by the cost plus contributions to overheads, the break even point. You should not go below this price.

Pricing For Profit

There are five ways to increase profits:

- Cut your costs
- Sell more
- Change your product mix
- Increase your prices
- Combine elements of all these

You will aim to set your prices at a level which will provide you with the highest profits possible.

PRICING STRATEGIES

The price you charge your customers usually (but not always) has to cover the costs of making a product or providing a service. As important is the idea that pricing strategies can change people's behaviour. For instance, very low prices could persuade them to buy more.

The different kinds of strategy are:

Cost Plus - the basic cost of each item to make/provide, plus your profit margin.

Mark-up - traditional to add a simple percentage to your cost price, especially in retailing.

Basic Plus - charge a basic price for the product but add on 'extras' like delivery, servicing etc which may have a different price depending on the customer.

Uniform - the same price for all customers no matter who they are or how much they buy.

Differential - offering a different price to different customers depending on what they expect to pay or get for their money, or their eagerness to buy.

Access - offer a low price to get customers, knowing that you can put the price up later to recover any losses - introductory offers.

Skimming - selling a product at a high initial price to people who can afford it, then dropping the price when the market becomes saturated.

Negotiated - negotiating a different price with each customer.

Marginal - offering a price which is actually below cost but which will make a contribution to overheads you have to pay anyway.

Price Lining - if selling a range of products to different customers, setting prices so that they are balanced, better quality products clearly costing more than cheaper ones.

The majority of these pricing strategies are concerned with an organisation's marketing plans and customer needs and expectations. If you can, always adopt a strategy that charges more than your costs and only charge below cost when you have a particular aim in mind.

MARKETING SEGMENTATION AND THE MARKETING MIX

Market Segmentation

In planning how to market a product, service or the organisation itself, the first step is to decide whether or not to segment the market. A market segment is a group of customers, users or supporters who share similar requirements. Each segment should be different enough from others to need special treatment and be able to be communicated with. Markets can be segmented in different ways:

Customers

Where they live, where they buy, purchasing power, average spend, type of industry, loyalty to supplier, age/gender /ethnic group/language, class, benefits sought (price, quality, delivery, reliability) required, life-style, attitudes, personality, or family structure

Users

Where they live, accessibility, extent of need, disposable income, socio-economic, relative dependency, or age/gender/ethnic/language

Supporter

Directly/indirectly involved, ethical supporter, bureaucrat, representative or advocate, or status-seeker

The Marketing Mix

A marketing plan consists of four elements and a decision. The four elements (the 'Four Ps') are:

Product

Price (or cost)

Place (where its advertised or located)

Promotion

How these four elements are combined is called the marketing mix. The decision is where to position your product, service or organisation in the market, on the basis of the marketing mix.

Positioning Your Product/Service In The Market

If you know the needs and expectations of your users, supporters or customers, what they want from your service or product, what they value and what they are prepared to give to obtain the service, then you can 'position' yourself and your organisation correctly.

Product

Any product or service must be tailored to meet the needs of the customer or user. A Meals On Wheels service, for instance, must offer familiar and popular meals, be nutritious and cheap to satisfy the needs of users, funders and supporters.

Price

If your service is expensive to 'purchase' (for instance it is expensive and can only be funded by grants), then the people who take the decision to give a grant and who must justify it are the targets (the chief executive of a Health Authority or Committee Chairperson). If it requires little public subsidy, then those who recommend projects (Local Authority officers, often trying to manage small budgets) should be the targets.

Place

Your advertising or promotional literature must get to the right places. The people reading your literature must be the right (targeted) people. Your premises or the place you deliver your service must be in the right place or the right time. What is involved in accessing your service must not put people off.

Promotion

Must reach the users, supporters and funders effectively and appropriately. Must use language and emphasise aspects of the service each group values. The right advertising, publicity and image must all be used, matching and reinforcing your 'position' in the market.

Four P's Exercise

You are a community-based transport initiative on a depressed estate with high levels of unemployment and social exclusion.

Product

You must match the quality, price and availability of the product to customer/user's needs and expectations. **What features of your product(s) would be most attractive to your customers?**

Price

Customers expect to pay a certain amount for goods. Users will only incur so much 'cost' to obtain a service. Supporters have limits. You must know what they each can 'afford' also ensure that they value what they receive. **How will you price your products to maximise sales/use/support?**

Place

Where do people or organisations acquire your product/service? How easy is it for you to deliver to them or them to come to you? **Think about the location and accessibility of the service and where people would find out about it.**

Promotion

You must make what you do and how you do it attractive and desirable to potential customers or service-users in order to generate a desired response: a purchase, a referral, extra demand, more money or resources or members. **What kinds of promotion would persuade your customers, supporters or users to buy your product or use your service?**

THE MARKETING PROCESS

Marketing is not a single activity (for instance, putting an advertisement in the local newspaper), it is a process. Typically it involves planning and implementation, to develop the business, with the aim of consolidating or expanding the organisation. The marketing process has five stages:

1 : Deciding goals/objective-setting

2 : Conducting research/ gathering information

3 : Drawing up a marketing plan

4 : Implementing the marketing plan

5 : Monitoring and reviewing results

Have you completed all of the tasks that might be involved in stages 1 - 3? If not, discuss what you still have to do and decide who will do them.

1 : Deciding Goals/ Setting Objectives

You must decide what you are trying to achieve. Is it more customers/users, more sales/visits, more loyalty to the product, increased support or membership, higher prices, more profits/resources. A person given responsibility for achieving these goals must have the backing of the whole organisation and access to necessary resources. The organisation must itself set these goals and decide what resources to commit.

What goals does the marketing plan have and what objective measures will you use to test success?

2 : Conducting Research

The organisation must look at the external situation (demand, supply, trends, legislative or technical change, attitudes etc) and the internal situation (ability to deliver, effect of marketing, costs, change required etc). This is called a Market Audit. It is a large subject for even a small organisation and can only be tackled successfully if the research is broken into small subject areas (such as suppliers, product quality, market perceptions of our product, pricing strategy, human resources/skills and so on).

What research have you done in to the 'external environment' and what in to the ability of the organisation to implement any marketing strategy (the 'internal environment')? What problem areas are there?

3 : The Marketing Plan

The plan consists of five elements:

- The market audit
- Making assumptions about behaviour based on research you have carried out
- Setting marketing objectives (based on the audit and assumptions)
- Selecting marketing strategies
- Making plans for implementation

4 : Implementing The Plan

Assigning responsibility, allocating resources, setting a timetable, systems for monitoring outcomes, physical implementation, reporting back.

Who is doing what? When by?

5 : Monitoring And Reviewing Results

Unless the organisation has objectives (agreed by, for instance, a Board of Directors, Management Committee or funder-supporters) there will be nothing to report and no way to decide if marketing has been successful. Both objective criteria (e.g. 'sales', 'increased use', 'more profit') and subjective criteria ('the picture in the paper was good', 'the kids enjoyed the day', 'I learned some new skills') should be used.

Very often in community groups those who direct and those who implement are different people with different perspectives on the marketing process: its goals, methodology, importance, timing, outcomes and so on.

All people involved must agree to the importance of marketing and this can only be a reality if marketing is driven by shared perceptions or ambitions.

SALES AND FINANCE IN MARKETING

The aim of marketing is to increase sales of the goods or services produced or to increase take up of services offered. There is no point in stimulating demand, for instance, if the cost of buying extra stock or machinery, tooling up the factory, or providing more staff to work with people are beyond the resources of the organisation. Nor is there any point in making forecasts of sales without the means to measure the change and a set of criteria to determine if extra sales have actually improved the position of the business.

Additionally, for any community organisation with a tight budget, there has to be both a guaranteed return and no adverse effect on the organisation as a whole.

All organisations will require a sales plan to determine the costs of extra sales both directly (for instance extra stock, more sales staff, new machinery) and indirectly (increased warehouse space, extra transport costs). It will also need a financial plan to help it know when costs will be incurred, what for and at what level and also when income will be generated.

The Sales Plan

Once the purpose of a marketing plan has been identified and market research carried out, a sales plan can be drawn up. A sales plan consists of the following:

Market Segmentation

For each market segment or group what 'sales pitch' or promotional techniques are being used? When will they occur? What are the projected kind and levels of demand? What are the projected sales?

Resource Development And Allocation

Based on the internal market audit, decisions will need to be made about the resources to be committed to the sales plan, the personnel, physical resources, financial resources etc required and how they are to be acquired. For instance, will people need retraining? Will you need a bank overdraft? Will there need to be an internal reorganisation? Will you need to bring in consultants? Or hire extra production, sales or administrative staff?

Advertising Strategy

This consists of decisions about where you will advertise and when, using what methods and to achieve what ends. For instance, radio advertising which reaches many people can help increase brand-name recognition but not generate many actual sales. An advert and coupon in the paper might not generate sales without that recognition. Inducements at the point of sale, for instance discounts, money-back guarantees, price cuts etc will not generate sales unless staff are offering them. Additionally it is important that each advertising method has had a cost-benefit analysis done in terms of both actual cost Vs sales income and resources allocated Vs marketing return.

Marginal Cost Analysis

This consists simply of a calculation of what extra sales will be generated at what cost in terms of the advertising budget and wage costs. How much extra income is generated and does this generate a gross profit or 'margin'. It is not necessary for a marketing drive to generate a profit since it may have other purposes: to increase market recognition prior to introducing a new product for instance or to clear a warehouse of stockpiles etc. But the 'marginal cost' or 'marginal benefit' of the marketing drive (i.e. what is lost or gained compared to the situation now) must be calculated.

The Financial Plan

The Financial Plan takes the information contained within the marginal cost analysis and fits it into the overall financial situation of the organisation. If the information exists the impact of the Sales Plan on the organisation's finances should be compared to the threats that exist from competitors and others. An advertising strategy that will bring in results in, for instance, six months is no good if a competitor can capitalise on demand generated to obtain those sales in three months. Or if a marketing drive starts a price war the organisation can't win. Or persuades a funder to withdraw support because they feel money would be better spent on core activities.

Firstly you will need to calculate projected sales for each product or service. This must then be multiplied by the selling price to provide the sales revenue.

Secondly the sales revenue must be analysed in terms of when it will arrive. If you are using a mix of sales methods - retail, wholesale, credit, mail order, post-sale invoicing etc - then when the extra income generated arrives it can be very complicated. An allowance must also be made for the fact that some sales will be bad sales and payment will never materialise.

Finally, the sales cost must be calculated. Sales costs consist of capital costs such as extra machinery, premises, fixtures and fittings etc; and revenue costs such as stock, wages, distribution, extra overheads, advertising. As with sales revenue, when this cost is incurred and when payment is made must also be determined.

Usually this information is put into a cash flow projection covering the period of the marketing strategy and afterwards. If sales are projected to rise and then fall slowly afterwards, the point at which there is no sales revenue being generated can be calculated and a date identified for the development of a new marketing strategy.

THE SALES PLAN EXERCISE - CALCULATING FINANCIAL IMPACT OF SALES

Acting as the marketing team for the Wood 'N' Tops community organisation and using the information below, draw up a sales plan for next year. There can be up to 30 trainees in the workshop able to work 30 hours a week each and 1 joiner is required to supervise 15 trainees. A training allowance of £36 per week is paid to each trainee. A training subsidy of £1000 per trainee per year has been announced. A joiner's wage is £12,000pa, the manager's is £16,000.

Wood N Tops Projected Budget

Income	
Grant (LA)	£10,000
Grant (LSC)	£30,000
Grant (ICP)	£8,000
Sales (last year)	£26,500
Donations	£14,800
Training Subsidy	?
New Sales	?
Total	£89,300

Expenditure	
Salaries	£40,000
Rent And Rates	£3,000
Trainee Costs	£54,000
Materials/Tools	£24,300
Office Costs	£12,000
Transport	£6,000
Promotion	£2,000
Total	£13,1300

Sales Projections And Cost Analysis

a) Carefree Cot (maintain production of at least 5 per month)
Unit Cost is £20 of which £15 is materials. It takes 10 person hours to make.
Sales projections are: month 1 = 5, month 2 = 10, month 3 = 15, month 4 and after = 20.
Could be sold for £65 (local) or £90 (outside retailer).

b) Sleepeze Bed (maintain production of at least 6 per month)
Unit Cost is £80 of which £30 is materials. It takes 15 person hours to make.
Sales projections are: month 1 = 6, month 2 = 8, month 3 = 10, Month 4 = 12, Month 5 = 8, month 6 = 12, stabilising at this level. Could be sold for £150 (local) or £190 (outside retailer).

c) Noah's Ark (new product)
Unit Cost is £3.50 of which £2 is materials. It takes 3 person hours to make.
Sales projections are: [retail : wholesale] month 1 - 10 : 30, month 2 = 15 : 40, month 3 = 20 : 60, stabilising at this level. Could be sold for £20 retail and £14 wholesale.

d) Park Bench (new product)
Unit Cost is £60 of which £20 is materials. It takes 30 person hours to make.
Sales projections are: month 1 = 4, month 2 = 6, month 3 = 8, month 4 = 10, stabilising at this level. Could be sold for £100 to Local Authorities in which case sales would be double or retail for £130 (local) or £170 (outside retailer).

e) Picnic Table (new product)
Unit Cost is £50 of which £30 is materials. It takes 20 person hours to make.
Sales projections are: month 1 = 3, month 2 = 5, month 3 = 5, month 4 = 8, month 5 = 10, stabilising at this level. Could be sold for £60 wholesale (month 6 onwards at treble the quantity) or retail for £90 (local) or £120 (outside retailer).

The cost of packaging and distribution on all products sold to outside retailers always adds 20% to the unit cost.

Sales Plan Exercise

Develop a sales strategy that will enable the workshop to break-even next year.

The workshop has a maximum annual amount of 23,400 person-hours of trainee labour available to it but due to day-release and unauthorised absences this is reduced to 17,550 (1,460 per month). This labour does not have a direct cost (i.e. wages) but does have an indirect cost (supervision). The task of the group is to distribute the productive capacity of the workshop over the next six months across a range of products produced for and sold into two kinds of markets which will generate the required additional income and cover any additional costs.

Income															
Product	Hours Required	Number Produced	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Cot	10														
Bed	15														
Ark	3														
Bench	30														
Tables	20														
Total															

Can the workshop break-even or does it either need to a) expand or reduce production; b) focus on particular products; or c) introduce new products in order to break even?

How easy was it to balance costs, sales and production/capacity?

What were the relative advantages of selling locally Vs outside and retail Vs wholesale?

Answers can be found in the appendix on page 412