The Marketing Plan

Chapter 5

"Emerson said that if you build a better mousetrap the world will beat a path to your door, and that may have been true then ... but it's not true now. No one will come. You have to package and promote that mousetrap. Then they will come."

— King C. Gillette
Gillette Razors

Overview: Marketing is the process of planning and executing a strategy to get goods and services to customers. The components of marketing can be described as the "four P's" or the marketing mix. **Product** consists of the products and services that your social enterprise furnishes; it is characterized by quality, assortment, packaging, and guarantees. **Price** is the amount you will charge customers for the products or services. **Promotion** is how you will create awareness of your products or services in the marketplace; advertising, publicity, and sales are aspects of promotion. **Place** (distribution) is how you will bring your products or services to your customers; distribution comprises wholesalers, retailers, multilevel marketers, and sales representatives. The **marketing mix** is a set of tools and techniques social enterprises use to achieve their **marketing objectives** in their **target market**. Your marketing plan will emphasize certain "P's" in its mix more than others.

Marketing is important because it embraces nearly every facet of your social enterprise. Production responds to what market research discovers about customer preferences for quality and packaging, which in turn are factors determining price. Market research also lends itself to new-product development based on what consumers want and identifies promotion techniques to reach new customers. Helpful or friendly marketing staff may inspire customers to buy products or services. Finally, management makes strategic decisions impacting operations based on marketing information about competitors' prices and positions.

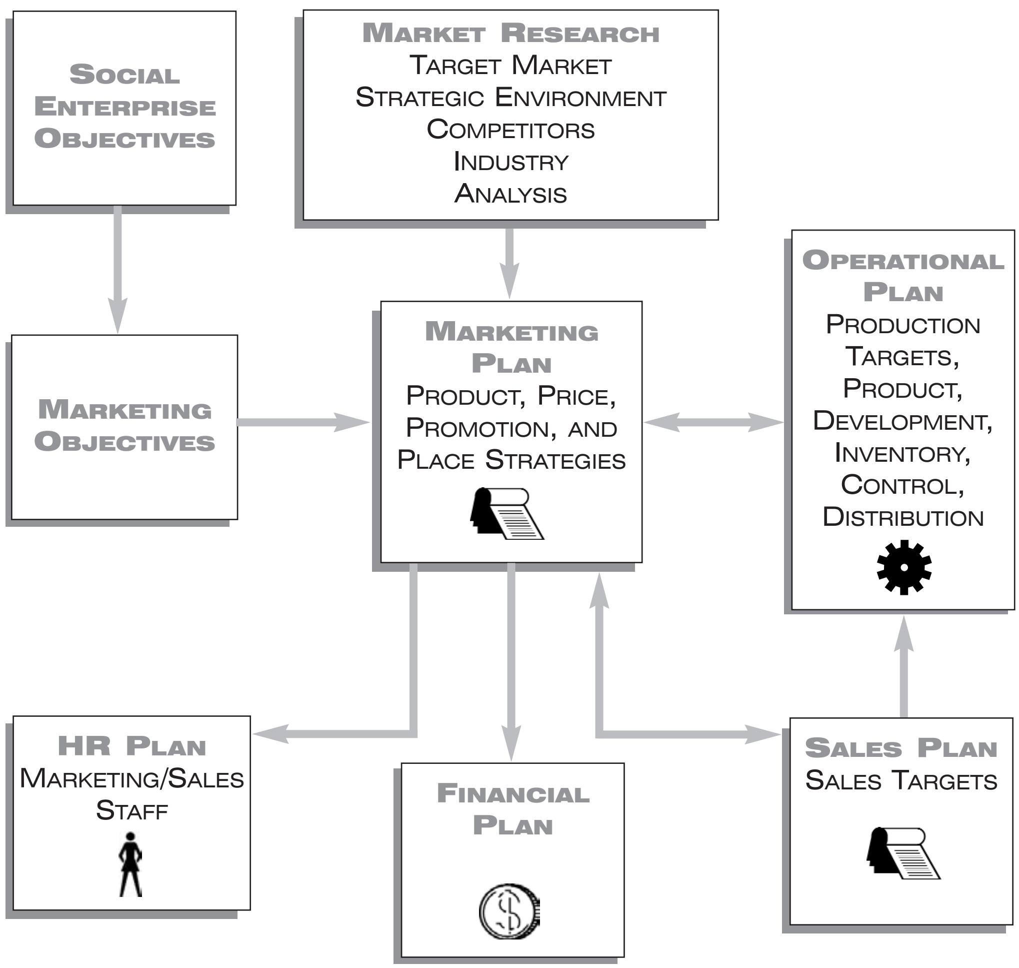
Marketing Synergies

"The most effective and efficient marketing plans are those that maximize the synergy between products, distribution channels, price, and promotion. A unified promotional strategy across an entire product line saves money and presents a consistent image of the enterprise in the consumer's mind. From a selection of complementary products, significant economies of scale in raw materials and packaging can be realized. Products with similar production processes allow for development of specialization and attainment of high-quality standards."

— Heather Shapter, SC/Haiti Business Advisor

This chapter will help you understand the tools and techniques of marketing and apply them to your social enterprise. It guides you through steps to develop your marketing plan by setting objectives and deciding on a strategy for each marketing component.

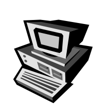
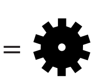
Exhibit 5A: Information Flows for the Marketing Plan



Guide to Icons

This chapter periodically uses icons (below) next to certain questions or sections to alert the reader to the fact that decisions made in the operations plan have implications for other segments of the business plan. The information flow diagram in exhibit 6A illustrates these relationships.

Financials =  Human Resources =  Marketing = 

Informations Systems =  Operations = 

Marketing Objectives

Determining Marketing Objectives

Rationale: Once you have laid out the objectives for your social enterprise, you can develop strategies for your marketing mix. Stating marketing objectives directs the development of your marketing plan. Marketing objectives should contribute toward achievement of the overall business objectives (chapter 2)—i.e. how much do you need to sell to achieve X% cost recovery or profit/loss—and should be based on the information gleaned in market research (chapters 3 and 4).

Marketing objectives must:

- Be clear.
- Be measurable.
- Be achievable.
- Have a stated time frame.
- Include a sales forecast (at least one marketing objective).

Examples of Marketing Objectives

- Increase product awareness of new product X within the target market by 25 percent in one year.
- Inform the target population about service Y's leading features and benefits compared with the competition's, increasing sales by 10 percent over the next six months.
- Reduce price of product Z or service Z by 10 percent and increase market share by 5 percent in the first quarter in target market W.
- Improve brand awareness so that a minimum of 50 percent of target customers will recognize your brand over the next fiscal year.
- Change formula for product V and reintroduce it in a new target market by 2001.
- Enhance service W to include A, B, and C features demanded by the target population to increase sales by 30 percent over the next year.
- Increase average ***gross profit margin*** 3 percent per product or service.

Gross profit—expressed as a percentage; shows the percentage of return an enterprise earns over the cost of the merchandise sold (costs of goods sold).

Gross profit margin—is calculated by dividing gross profit by sales.

Exhibit 5B: Objectives Linked to Strategies

Objective	Marketing Strategy	Mix
Increase target market W share by 5 percent in first quarter	Reduce price of product Z by 10 percent	Price
Launch improved service Y market in 2001	Redesign declining service Y according to new customer specifications/wants	Product
Introduce product X in new target market	Expand distribution to sports concessions to reach more youth and men	Place
Increase product awareness of new product Z in target market by 25 percent in one year	Aggressive sampling campaign using point of purchase and coupons to encourage trying new product	Promotion

Marketing manager, business manager, PO business advisor, partner program manager, sales staff

Developing Marketing Objectives for the Social Enterprise

▲ Determine the marketing objectives for your social enterprise.

▲ Refer to the examples (exhibits 5B and 5C) for assistance or inspiration.

<u>Marketing objectives are included in the Business Plan.</u>

Exhibit 5C: TARTINA Marketing Objectives
April 1999 – April 2000

- Raise awareness of TARTINA brand by 50 percent
- Reach sales target of U.S. $58,976
- Sell 62,500 units (all products)
- Secure average gross profit margin of 16 percent per product

Product Strategy

Product/Service Features and Benefits

Rationale:
The products and services that succeed are those that offer benefits to customers that are greater than their costs. *Customers are interested in products for their benefits, not their features.*

Understanding the features and benefits of your products and services will help you develop your marketing campaign by highlighting the aspects that are the most important to your customers. It will also assist you in differentiating your products from your competitors' and affect a variety of pricing and positioning strategies.

Definition of Product Features and Benefits

Features are characteristics of a product or service that deliver a benefit. Features are usually easily describable attributes such as size, model, design, color, hours of businesses, functionality, brand, packaging, quality, shelf life, etc. For instance, if your social enterprise provides marketing services to its target population, features of that service might include branding, professional sales and marketing staff, training in promotion methods, employment opportunity, and technical assistance on product development.

Benefits are advantages a product offers the customer. Benefits are more difficult to detect because they are often intangible. The most compelling benefits of a product or service are those that render emotional or financial rewards. Emotional rewards make customers feel better about themselves, such as feeling socially or environmentally conscious, more attractive, or more self-confident. Financial rewards, like saving money or increasing income, are other benefits a social enterprise might offer customers.

Using the above example of the marketing service, benefits for your customer (i.e., self-employed women) are access to markets, or a guaranteed market for its products; cost savings on—and access to—professional services; skills enhancement; and increased self-esteem, income, and economic opportunity.

PO business advisor, marketing manager, business manager, sales staff

Clarifying Product/Service Features and Benefits

- ▲ Create a Product/Service Features and Benefits Table (exhibit 5D).
- ▲ Fill in the table identifying the features of each of your products or services and their corresponding benefits.
- ▲ Be sure to complete this exercise from the customer's point of view, not your own.
- ▲ Then, in a paragraph or two, briefly describe the service or product of your social enterprise, *emphasizing the benefits* to the customer. Focus on the areas in which your product or service has a distinct advantage over the competition's. Refer to any problem in the target market for which your service or product provides a solution. Make a convincing argument that people are, or will be, willing to pay for your solution.

Know Your Competitors' Products

Be sure that your staff is intimately familiar with your competitors' products or services. When conducting this exercise with TARTINA staff, we were surprised to find out that this was not the case, so we conducted a product comparison during the business plan development workshop. This was not the ideal approach because it limited us to comparing physical features and considering only the opinions of the participants. Obviously, comparative analyses such as this one are easier for social enterprises selling products than for those selling services. At any rate, educating staff about features and benefits of competitors' products and services is an obligatory part of staff training and continuing development.

Exhibit 5D: Product/Service Features and Benefits Table

TARTINA Peanut Butter		Financial Services	
Features	**Benefits**	**Features**	**Benefits**
High in protein	Good nutrition	Small working capital loan	A vehicle to grow the business
Slightly sweet flavor	Kids love it; therefore easy for mothers	Weekly repayment	Ease of repayment
"100% natural"	A clear conscience; no worries about unsafe chemical additives	Collateral free	Access to credit
Expiration date	Freshness guaranteed	Easy application progress	Convenient; low stress
Economical	Saving money	Savings	Economic security
20-oz. plastic container	Convenient, reusable	Solidarity group	Emotional support, technical assistance, and networks
Produced by local economically disadvantaged Haitians	Peace of mind; pleasure from "helping to make a difference"	Short loan cycles	Fits business cycle/ other activities; lowers risk

Features and Benefits of Competitors' Products or Services

Rationale:
Analyzing the features and benefits of your strongest competitors' products and services may give you ideas about how to improve, refine, or change your products and services when you develop your product strategy to increase your market share or sales volume.

Marketing manager, business manager, PO business advisor, sales staff

- ▲ Complete the Product/Service Features and Benefits Table for your competitors' products and services that are the same as yours.
- ▲ If you completed this product study in your competitive analysis (chapter 4), skip this section.

Product Life Cycle

Rationale:

The product's life cycle is the process through which a product enters, grows, saturates, and leaves the market. During the life span of your product or service, you will reformulate your marketing strategy several times—not only as a result of changes in market conditions or new competitors but also in response to changes in customers' interest and requirements for the product. The four stages of a product's life cycle are introduction, growth, maturity, and decline. Each stage is marked by specific characteristics.

Stages of a Product Life Cycle

- ***Introduction***—when new-product sales are slow, and profits are nonexistent, because of heavy costs of production and promotion. Often during this stage there are few competitors, promotion is heavy, and the focus is on getting potential customers to try the product rather than on the developing the brand.
- ***Growth***—a period of rapid market acceptance of the product and dramatic increase in sales and profit. After a product takes off, copycat competitors enter the market. During the growth stage marketing shifts to creating brand preferences, and promotion lessens.

Product Life Cycles

- Products have a distinct beginning and an end.
- Profits increase, level off, and then decline, depending on the stage in the product's life.
- There are marketing and sales challenges at each stage in the product's life.
- Managers must make strategic decisions based on where a product is in its life cycle.

- ***Maturity***—marked by flattening sales and stabilizing, then decreasing, profits. The market becomes saturated and price competition can be fierce. Marketing efforts at this stage concentrate on targeting a new market of buyers and taking market share from competitors by price cutting or relaunching the product. When you see a product advertised as having a "new" or "improved formula" or as "now recyclable," that is usually a good indication of a mature product after a face-lift.
- ***Decline***—indicated by falling sales and often rapid and eroding profits. At this stage an enterprise must decide whether it wants to try to rejuvenate the product by investing in development and aggressive marketing or to quietly admit defeat and exit the market. For example, in the advent of electricity, gas lamp producers either integrated the new technology into their products or went out of business.

EXHIBIT 5E: STRATEGIC IMPLICATIONS OF PRODUCT LIFE CYCLES

Example From TARTINA Enterprise

Mamba peanut butter is in the mature stage of the life cycle. Sales increase during this stage, but at a declining rate. As Mamba sales level off, TARTINA profit margins narrow. Price competition is severe. The best way to extend the life of this product and keep profits healthy is to modify it (alter the taste, color, labeling, packaging), design new promotion, or develop new product uses. TARTINA has entered into the stage of the product life cycle where it is one brand among many others already well known in the marketplace. It has to figure out its comparative advantages and implement a promotion program that shouts them from the hilltops!

Two strategic issues emerge from the recognition that peanut butter is in the maturity stage:

- TARTINA needs to find ways to develop the Mamba brand name to increase sales within its market.
- TARTINA must find ways to postpone peanut butter's entrance into the decline stage of the product life cycle. One of the best ways to do this is to introduce product modifications—new packaging, new flavors, etc. This approach serves to differentiate the product from its competitors and temporarily escape the heat from the direct competition. TARTINA has identified a market niche for sweetened peanut butter, a flavor that is not offered by the competition and will serve to more directly target the tastes of children.

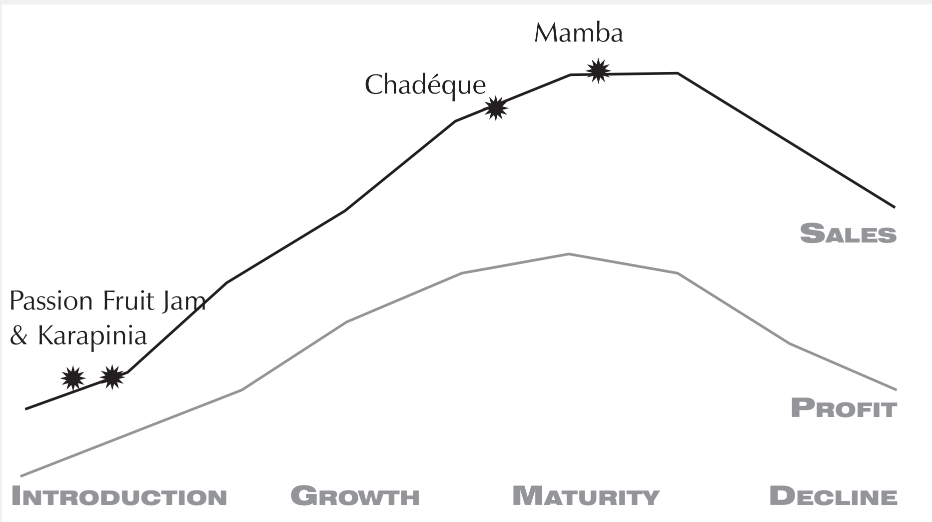
Karapinia is in the introduction stage of the product life cycle; it is a new product in the Port-au-Prince retail outlet. This means that sales volume will be low, costs high, and distribution limited; losses are likely. It is the riskiest stage of the life cycle. The positive side is that there is little direct competition in this stage. Knowing this will help TARTINA make decisions regarding whether Karapinia should even be pursued at this time. Perhaps the business cannot afford any losses and should wait until profits from other products are healthier. On the other hand, the market research and ***test market*** results conducted prior to the preparation of the business plan pointed to the great potential of this product.

Test marketing—conducting a small-scale promotion or introduction of a good to gather information useful in full-scale product introduction or promotion.

One strategic issue emerges from the recognition that Karapinia is in the introduction stage:

- The potential success of this product makes the risk of introducing it into the market a worthwhile one. In addition, the expected revenues to be realized from large sales of peanut butter and grapefruit jam will be used to finance development of Karapinia. As sales for Karapinia increase, these revenues will in turn finance TARTINA's future growth when peanut butter enters the decline stage of the product life cycle.

EXHIBIT 5F: PRODUCT LIFE CYCLE FOR TARTINA



Same as previous exercise

Mapping The Life Cycle of Products/Services

- ▲ Plot your products or services on the Product Life Cycle Chart (exhibit 5F).
- ▲ Write in narrative form the strategic implications that emerge from the stage of your products in their respective life cycles (exhibit 5E).

PRODUCT POSITIONING

Rationale:
Positioning defines your products and services *relative to your competition's*. Reviewing the features and benefits of your products or services against those of your competition helps you see where you may or may not have a comparative advantage. Completing a positioning exercise is part of the analytical process of determining your product strategy. The information obtained may lead you to make specific changes to your product features, distribution, or price to gain a comparative advantage against a certain competitor. Conversely, if a competitor is particularly daunting, you might use this positioning information to move out of a given market.

Same as previous exercise

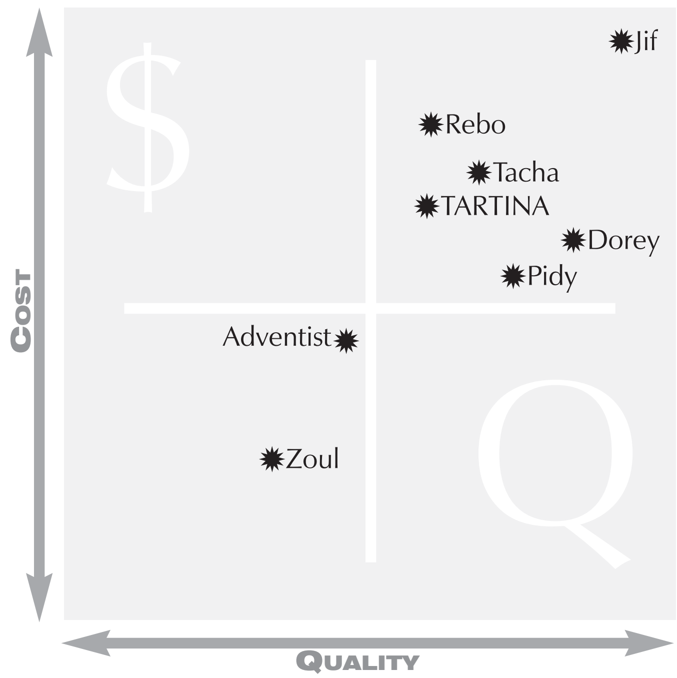
Positioning Products/Services

- ▲ Positioning is a matrix exercise. Price is always used as measure down one side of the matrix. On the other side, use product features that provide the most important benefits to your customers, such as quality, taste, packaging, etc.

▲ Prepare a matrix for each product (exhibit 5G).

▲ Draw on information obtained in your competitive analysis and market research, including customer surveys, and from your sales force, vendors, and outlet managers to get an indication of your position relative to your competition's.

EXHIBIT 5G: MAMBA PEANUT BUTTER PRICE/QUALITY POSITIONING



TARTINA's Position for Mamba vis-à-vis its Competitors
On the right hand side of the matrix we see 5 brands closely positioned according to their price and quality. Jif, the American import, is the most expensive and the best quality peanut butter on the market. Zoul and Adventist are cheap, but lag way behind in quality. TARTINA's main contenders are Pidy and Dorey for its position as the "economic" and "good value" peanut butter choice.

Developing a product strategy requires synthesizing the information obtained from your research on target markets and customers, comparison of product features and benefits, competitor analysis and positioning analysis, and review of stages of the product life cycle. This information paints a complete picture of the market and your place in it, enabling you to develop a strategy for your product or service.

To ensure that new-product developments are feasible, it is important that both production and marketing/sales staff participate in developing product strategy.

Rationale:
The product strategy is one part of your marketing plan aimed at achieving your overall marketing objectives. (Remember that each "P"—product, price, place, and promotion—in the marketing mix has its own strategic plan, with all four making up the marketing plan in its entirety.) A product strategy consists of any changes you make to the features of your product or service, information on in-process or future activities relate d to the development of new products/services, consolidation of the product line, etc. The strategy informs how these changes help achieve marketing objectives for the product.

"Product" Challenges and Strategies for Service Businesses

Nonmaterial Product

When you sell a service, you are selling intangibles—a technique, advice, a process, or a result. Customers may have difficulty discerning what specific benefits they are buying.

Strategy: Define your services and package them so that their benefits are more tangible to customers. Accompany services with complementary manuals, tools, and templates to make the services more "material." Link services to a "product output" so that customers feel they are clearly getting something concrete for their money. For example, rather than sell generic business training, sell a "business plan" and ensure that customers walk away with one in hand. Bundling services with products can make services more discernible; management information (MIS) technical assistance can be sold as a complete system with software or manual records.

Quality Is Subjective

There are few standards for measuring quality in service businesses. When customers pay for accounting or legal services, they are not usually qualified to assess the quality of the service itself. In this case, quality is based on trust or amiable relationships with the service providers. For example, if your business sells counseling services, your customers' patronage of your social enterprise is grounded in their relationship with a staff member they like. This leaves your enterprise vulnerable to losing customers if the staff member quits.

Strategy: Develop your reputation and image as a high-quality service business by using customer references and testimonials. Document your methodology and emphasize training of your staff. Build customer identification with the enterprise through branding—"X Enterprise Marketing Methods"—and emblazon materials with your logo and name. When possible, encourage customer contact with different staff members.

Limited Use

Most small and micro businesses operate with narrow margins and limited cash and therefore carefully weigh the benefits of each investment. Paying for professional services is fairly low on such customers' list of priorities, and they may prefer to invest their money in technology, equipment, or employees. Additionally, the nature of many service businesses does not invite frequent, repeated use; for example, training, accounting, or legal services may be sought only a few times a year.

Strategy: Stay close to the customers, understand their needs and wants, and tailor your services accordingly. Use customer satisfaction surveys or evaluations as a standard procedure after providing a service. They are ideal instruments for fine-tuning services to fit the changing needs of customers. You may find that you need to diversify your service portfolio or seek greater market coverage.

Marketing manager, business manager, sales staff, PO business advisor, production manager, production agents

Developing a Product Strategy

This exercise has two parts. Retrieve information from chapter 3 for background.

▲ **Market description:** In a few lines, describe your current target market and future trends germane to each product. Give an indication of the demand tendency for your product relative to its life cycle stage. Describe customer demand as it pertains to particular product features.

▲ **Product strategy:** State the sales target for the product or service. Indicate who the primary consumer is, and specify whether the consumer is different from the purchaser/decision-maker. Detail which changes will be made to enhance each product's features and how this will (1) help your products gain comparative advantages in the marketplace and (2) meet your marketing objectives.

Product strategy is included in the Business Plan.

The example in exhibit 5H illustrates how the product strategy for Mamba peanut butter aims to meet overall marketing objectives in unit sales and dollar value as well as to develop TARTINA brand awareness.

EXHIBIT 5H: PRODUCT STRATEGY FOR MAMBA PEANUT BUTTER

Market Description

The overall demand for spicy and regular peanut butter appears to be experiencing positive growth, although at a declining rate, according to supermarket management. (Industry statistical information on demand trends is not available.) Factors explaining this growth trend include the rural to urban migration; increasing numbers of women joining the professional work force, leaving them less time to make homemade peanut butter; and the homemade peanut butter maker's lack of access to peanuts. The spicy and regular flavors of peanut butter have consistently been the biggest sellers in the TARTINA product line, making up 50 percent of all sales. In fact, the social enterprise has not been able to keep pace with the demand for its peanut butter, particularly for the spicy flavor.

Product Strategy

Sales target: 18,300 units (U.S. $27,727)

The social enterprise will continue to emphasize the sale of spicy peanut butter as the "star" of its product line. The spicy flavor will be complemented by the regular flavor to meet customer demand. The regular flavor will be produced at a ratio of 1:4 to that of spicy peanut butter.

The social enterprise proposes to introduce a new flavor, sweetened peanut butter, in supermarkets in Port-au-Prince. This flavor is offered by international brands such as Jif and Skippy but is not produced by any local food processors. With international peanut brands costing 40 to 50 percent more than local brands, this flavor remains out of reach of most urban Haitians. By offering a more affordable sweetened peanut butter brand, TARTINA can access a previously untapped market.

Comparative Advantages

There are four primary comparative advantages to introduction of this new flavor:

- It will serve to differentiate TARTINA from other brands. Even with planned promotional efforts, it will be difficult for TARTINA to make a name for itself in the spicy and regular peanut butter markets, where other brands are well established and have developed loyalty.
- It will offer a market niche that currently is not served by local peanut producers.
- The lower competition for this flavor should alleviate some of the pressure on profit margins.
- Offering new varieties of a product is one of the most effective ways to prolong the product's mature phase before it goes into decline.

Thus, the TARTINA peanut butter product line will be as follows:

Peanut Butter Flavors	Primary Consumer	Purchaser/Decision-Maker
Regular	Adults and children	Mothers/Wives
Spicy (principal flavor)	Adults	Mothers/Wives
Sweetened	Children	Mothers

PRODUCT LINE STRATEGY

Rationale:

If your social enterprise offers more than one product, you will need to develop a strategy for your entire ***product line***.

Clarification of a Product Line Strategy

A product line strategy should maximize synergies in your marketing mix, production process, or raw materials acquisition. Examples of product line synergies are ***cross-selling*** several products to a single market, economies of scale that spread fixed costs over a larger number of products, ***economies of bulk purchase*** of raw materials for products that have shared ingredients, and promotional vehicles to build brand awareness for all products in the line under the same brand name.

A product line strategy capitalizes on wider benefits of product changes (or additions and deletions). Examples include narrowing a product line by discontinuing certain products or services because their costs of production, management, distribution, etc., are too high and they fail to offer synergic values. Product/service specialization, or "niche" development, is one approach to narrowing product line. Another option is to widen a product line by rendering additional services or producing new goods that add value to the product mix. TARTINA's introduction of new flavors of Mamba peanut butter was a low-cost, high-value strategy to differentiate a mature product and leverage economies of bulk purchase and scale throughout its product line.

Product line—an enterprise's group of products or services that are recognized as having a certain functional coherence and are sold to the same market or marketed through the same outlets.

Cross-selling—a marketing strategy for selling several products across a product line or brand by placing them together in display or using other tactics to encourage purchasers to buy more than one item in the line or brand.

Economies of bulk purchase—realizing cost savings by purchasing in volume.

Same as previous exercise minus production agents

Preparing the Product Line Strategy

▲ Write a product line strategy for the products and services in your social enterprise. Focus on synergies created across the line and on how changes to specific product features or number of products will benefit your overall business.

Product line strategy is included in the Business Plan.

EXHIBIT 5I: TARTINA PRODUCT LINE STRATEGY

The product line strategy has been formulated to balance the need for focus with that for offering a sufficient variety of products to decrease fixed costs per product. The focus required refers to the need to build expertise, especially in the areas of food transformation and marketing of a limited range of products. Prior to the preparation of the business plan, 23 different products made up the TARTINA product line. With such a long list, product specialization was very difficult to achieve, creating problems of standardization and quality control. Similarly, preparing a cohesive marketing strategy for such a sprawling line of products within the framework of a small enterprise was not possible. Potential economies of bulk purchase for containers were also being lost with the addition of every new product size. A wide-ranging product line significantly complicated enterprise management of inventory control, accounting, sales, and production reporting.

In terms of specialization, the ideal TARTINA product line would consist of one product. However, "*cross-selling*" of products is also required to reduce the fixed cost of sales per product. The fixed costs of each sales visit, product delivery, and payment collection need to be spread out over as many products as possible.

Seven highly complementary products have been retained in the TARTINA product line. Simply put, peanut butter and jam belong together. Peanut butter and jam or jelly spread on bread is a common Haitian breakfast. This combination is also sometimes packed in children's lunch boxes or eaten as a snack during the day. Karapinia (sugar- and spice-coated peanut snack) stands apart from the jam, jelly, and peanut butter products. But one of its synergistic values comes from the fact that, like peanut butter, its basic ingredient is the peanut.

Distribution Strategy

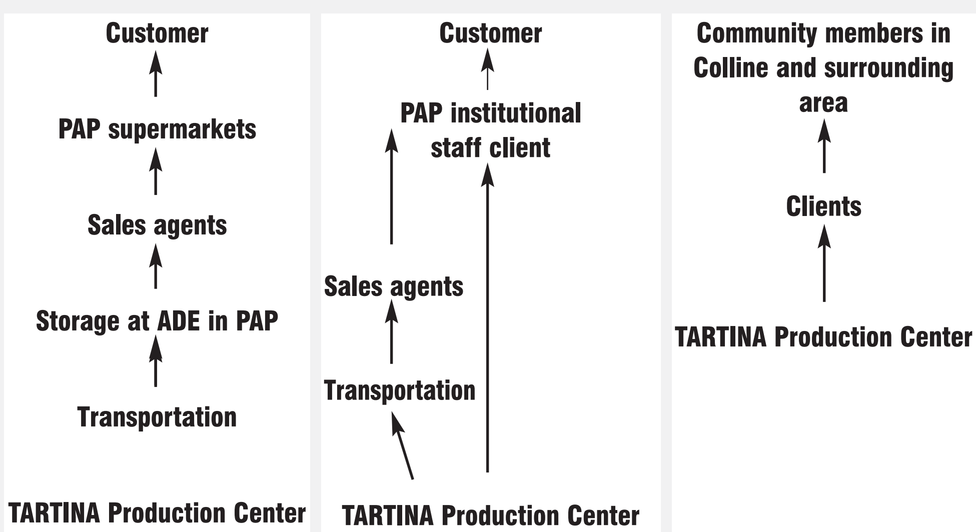
The distribution (place) strategy articulates how you will get your products or services to your customers. If your clients are business owners, distribution is a key component of alleviating a common constraint the self-employed poor face—gaining access to markets. Both the TARTINA and the retaso social enterprises (see chapters 4 & 9) focused heavily on distribution strategy as a major aspect of their interventions linking the self-employed poor to markets. For service industries, distribution strategy may rest on the hours of operation and location of your services and on whether they are convenient and easily accessible for your customer. For manufacturing businesses, distribution of products to markets entails placing them in commercial or artisan outlets and often involves intermediaries such as sales agents, transportation services, storage, etc. A good distribution strategy should give attention to efficacy, efficiency, cost, and customer service.

Vocabulary

Avoid confusion between *"markets"* and *"distribution channels;"* often they are one and the same. If you are not selling directly to your final customer, then your actual customer will be part of the ***distribution channel*** for your product or service. As well, the method for distributing your products or services to the market is included in the distribution channel.

Distribution channels— the various routes that products and services take as they travel from the manufacturer or producer to the consumer. Distribution channels include all intermediaries, such as transportation, storage, sales representatives, wholesalers, retailers, etc. Each member of the channel seeks to maximize profits, and these costs are passed on to the consumer.

EXHIBIT 5J: EXAMPLE OF DISTRIBUTION CHANNEL FOR TARTINA PRODUCTS



PO business advisor, marketing manager, program management (parent & partner), sales staff, finance manager, logistics/operations manager

Identifying Markets and Methods of Distribution

- ▲ Review the list of current and potential actual customers you identified in chapter 3. Add any customers you may have overlooked.
- ▲ Put your actual customer markets in a table and rank them in order of importance (in terms of potential volume of sales or revenue) for each product. In the example in exhibit 5K, 1 is high, or very important, and 5 is low, or less important.
- ▲ Next, identify the best methods for reaching these distribution channels using the Distribution Matrix (exhibit 5L).

Exhibit 5K: TARTINA Ranking of Actual Customer Markets

Product	Supermarkets	Minimarts	Institutions	Vendors	Center	Individuals
Mamba	1	2	3		4	
Karapinia			2	3		1

Markets for TARTINA Products

Retailers—supermarkets, convenience stores, artisan markets, specialty stores, informal market vendors

Institutional customers—restaurants, hotels, organizations, agencies, trade groups, schools, etc.

Production center—selling wholesale from production site

Individuals—clients/employees of TARTINA sell to individual friends, family and community members

Exhibit 5L: TARTINA Distribution Matrix

METHOD	Supermarkets	Minimarts	Institutions	Individuals	Vendors	Center
Sales agents	•	•	•		•	
Direct sales			•	•		
Clients/employees				•	•	
Distributors	N/A	N/A	N/A	N/A	N/A	N/A
Staff				•		•

Methods for Distributing TARTINA Products

Sales force—sales representatives who sell products to retail or institutional markets.

Direct sales (also called multilevel)—similar to sales techniques used by private companies like Amway and Shaklee, TARTINA uses individuals as distributors to sell products to colleagues. In return, individuals receive a percentage of profit margin on per-unit sales.

Social enterprise or implementing partner staff—selling directly to individuals, institutions, retail outlets.

Clients—selling products in their communities.

ADVANTAGES AND DISADVANTAGES OF THE DISTRIBUTION CHANNELS

Rationale:
Prior to deciding which channels you will use to distribute products to your customers, you will need to assess the "return on investment" from distribution options available by delineating the costs of each option. The return on investment is measured by the benefits realized from making the investment, which is expressed in actual sales and the potential for future sales through, for example, building brand awareness.

Same as previous exercise

Analyzing Distribution Options

Step 1

▲ List the advantages and disadvantages for each potential market in the distribution channel. An example is given in exhibit 5M, **Comparison of Distribution Channel Options for TARTINA (Markets)**.

▲ Synthesize your analysis of the advantages and disadvantages of your markets and methods for reaching them.

▲ Based on this analysis, summarize in one or two sentences the implications of your analysis for your distribution strategy for both markets and methods of reaching them.

Step 2

▲ Repeat the steps above for potential methods for reaching your market in each distribution channel. An example is given in exhibit 5N, **Comparison of Distribution Channel Options for TARTINA (Methods).**

Exhibit 5M: Comparison of Distribution Channel Options for TARTINA

(Markets)

	Supermarkets/Minimarts	Institutions	Individual Vendors
Advantages	• Largest market. Offers potential to achieve significant sales volume, which is not possible in other markets • More economical to use sales agents for this market than for sales to institutions. One sales agent is able to realize a greater volume of sales • Market demand for Mamba is expected to continue to increase • Good visibility for building brand awareness • Opportunities to cross-sell products	• Profit per unit is higher than for supermarkets, but lower than for sales to individuals • Little or no direct competition at the point of sales • Competitive advantage of convenience of availability at the work site sells the product • Quality requirements are lower than for supermarkets • Opportunities for contracts with hotels, schools, etc.	• Most profitable per unit • Purchase is in cash • Simplest sales approach: no sales follow-up necessary and accounting procedures simplified • Informal vendors offer potential for distributing small satchels of Karapinia • Quality requirements are lower than for supermarkets
Disadvantages	• Stiff competition • Gross profit margin is the lowest of the three options. When peanuts are purchased for more than 12 gourdes, money is lost with every unit sale of Mamba • Follow-up/customer service necessary • Product quality requirements are high	• Limited sales volume potential.	Currently only one individual purchasing from production site. Poor market potential to realize significant sales volume

Strategic Analysis

The two ingredients necessary to achieve the program's cost recovery goal are significant sales volume and a healthy unit profit margin. Supermarkets offer the greatest potential for reaching significant sales volume, but the unit profit margin in this market is unhealthy. The enterprise is currently losing money when it sells in supermarkets. To pursue crucial supermarket distribution, TARTINA will increase production and sales force efficiency to lower unit costs on mature products. Institutions and individuals offer healthier profit margins as the expense of the intermediary (sales staff) is cut out and because institutional employees are willing to pay more for the convenience of having the product come to them. Significant sales volume will be very difficult to achieve in these markets, however, unless TARTINA can interest a large percentage of staff in large institutions to purchase TARTINA Mamba on a regular basis or pursue contracts to sell to schools, hotels, etc.

Implication for distribution strategy: *Since the retail market is the only market that offers the potential sales volume to make the enterprise self-sufficient, this will be considered the primary market; other channels will be considered complementary to supermarket distribution.*

EXHIBIT 5N: COMPARISON OF DISTRIBUTION CHANNEL OPTIONS FOR TARTINA

(METHODS)

	Sales Agents	Direct Sales	Clients	TARTINA Staff
ADVANTAGES	• Can secure large commercial contracts • Connections with merchants • Professional image • Focused only on selling TARTINA • Best method for achieving target sales volume	• Low-cost alternative to hiring sales staff • Able to sell to organizations that are not reached through center, clients or sales agents	• Direct sales to individuals • No sales costs incurred • Cash sales only • No follow-up • Income impact on clients • Higher per-unit revenue on sales	• No/low sales cost • Can sell products on credit to customers; attracts larger customers • Access to organizational transportation
DISADVANTAGES	• Substantially increases costs and reduces per-unit profit margins • Transportation, storage, inventory, and management complexities • Under the current structure staff agents are delivering products, which is not a cost-efficient use of their time • Requires strong inventory management systems	• Difficult to control quality of representation • Low volume • Potential for hidden cost of inventory stagnation, follow-up due to disinterested salespeople • Usually cannot reach commercial markets • Successful direct sales require training, which cancels out cost advantage	• No/low market formal access • No transportation to sell outside immediate area • Low-volume sales	• Not trained in sales techniques • Difficult to access commercial markets because of limited time, connections, sales skills • Time divided between other responsibilities • Adds complexities about roles and responsibilities

STRATEGIC ANALYSIS

A formal sales force is the best vehicle to secure a large volume of sales. Salary structures, work schedules, and number of sales agents will be thoroughly analyzed to ensure maximum benefit. Management of sales personnel and staff development are key. Experienced sales force translates into healthy sales levels and a consistent, professional presentation of TARTINA products. Direct sales reduce costs and help build brand awareness as institution employees tend to have more time to listen to the TARTINA story than they would have when picking up their weekly groceries. There is also no competition from local producers in this arena. However, there are hidden costs of follow-up and inventory stagnation, and there is little possibility for reaching sales targets. Client offer little value in the distribution strategy toward achieving marketing objectives, although there is direct financial benefit for clients to sell their own products. TARTINA staff members selling TARTINA products is a conflict of interest, so they will be limited to distributing products on site to community residences.

Implication for distribution strategy: *Focus on professional sales staff as the main method for reaching retail distribution channels. Sales staff will also take over a portion of institutional channels; other methods will complement the sales force.*

PRIORITIZE LOCATION OF MARKETS FOR DISTRIBUTION CHANNELS

Rationale:

Before deciding which channels you will use to distribute products to your customers, you will have to decide where you will distribute them. Location plays a large role in determining return on distribution investment. You want to find the most lucrative markets and the most cost-effective means of reaching them. In chapter 3, you located your target market and studied market trends. This should give you useful information in deciding where to distribute products.

Determining Market Locations

Criteria such as density of target customers, concentration of prospective distribution outlets, and distance to and range of locations are important variables in weighing cost advantages or disadvantages of a particular distribution channel. Consider savings like distributing several products through the same channels; also analyze less obvious expenses, for example, managing inventory, accounting procedures, and servicing products. Although it is tempting to place your products in every location with a viable target market, distributing to many different locations exacts a heavy cost burden. Therefore, the most effective strategy, especially for a new social enterprise, is to distribute to a few select markets.

Same as previous exercise

Prioritizing Markets

- ▲ Identify the location of markets for each product.
- ▲ Prioritize them according to cost advantages and potential returns.
- ▲ Compile the information into a table (exhibit 5P).
- ▲ Write out a justification based on cost advantage for selecting market locations as related to product or service distribution (exhibit 5Q).

EXHIBIT 5P: TARTINA PRODUCT LINE AND PRIMARY MARKET LOCATIONS

Product Line	Primary		Secondary	
Regular peanut butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Sweetened peanut butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Grapefruit jam	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Passion fruit jam	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Karapinia	Colline and surrounding area	Individuals	PG and PAP	Individuals/ vendors

Colline—small town where production center is located

Petit Goave—provincial capital, largest city in the region of Colline

Formulate a Distribution Strategy

Rationale:

Your distribution strategy should be a synthesis of the exercises you did on types of markets, market locations, and methods of distribution. Essentially, putting together a distribution strategy requires answering the "where, when, who, how, and what" of distribution.

Same as previous exercise

Formulating the Distribution Strategy

▲ Prepare a Distribution Channels Map illustrating exactly how you intend to move your product or service from the point of origin to your customer. (An example for TARTINA is given in exhibit 5R.)

▲ Use the following questions as a guide in formulating your distribution strategy. (An example of the distribution strategy for TARTINA is given in exhibit 5S.)

- Where? Detailed plan for number and location of target markets.
- When? Plan for time period (should correspond to business plan).
- Who? Staff/contractors required to carry out distribution strategy.
- How? Method that will be used to distribute product at every level of the distribution chain.
- What are the budgetary implications? Cost to distribute product/service according to proposed strategy.
- What synergies does your distribution strategy capture?
- How does your distribution strategy contribute to achieving the overall marketing objectives?

Distribution strategy is included in the Business Plan.

Exhibit 5R: Distribution Channels Map for TARTINA Products

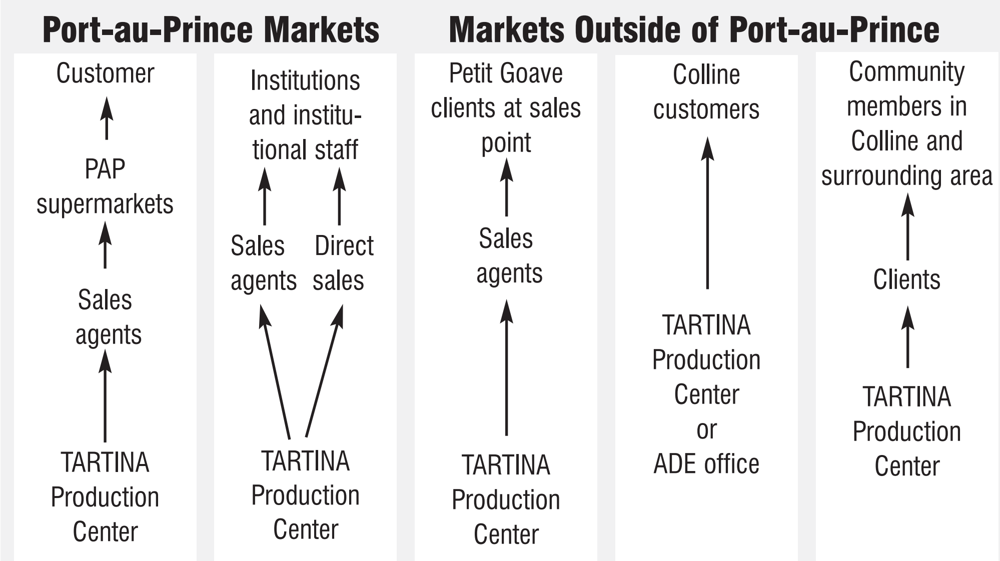


EXHIBIT 5Q: DISTRIBUTION STRATEGY FOR TARTINA

I. Markets and Locations

The social enterprise business plan focuses on markets where both significant sales volume and healthy profit margins can be realized. In order of priority, they are Port-au-Prince (PAP), the localities—Petit and Grand Goave—surrounding the production site, and PAP institutions. *The combination of these three markets is required to maximize marketing objectives.*

Synergies: In each market, cross-selling of products is the focus. Cross-selling not only increases sales but also increases sales capacity. Also, with cross-selling significant economies of scale can be achieved by being able to sell more products to the same customer.

Port-au-Prince—Supermarkets: Port-au-Prince and the surrounding area have the highest concentration of TARTINA customers. The PAP retail market is the only market that offers the potential of a sufficient sales volume to make the enterprise financially viable. Distribution expenses, including transportation, inventory management and tracking, and accounting, will have to be carefully managed to ensure cost-effectiveness of distribution. Competition for local peanut butter and grapefruit jam is stiff, however, and will limit profit margins for these more mature products.

Port-au-Prince—Institutions: PAP institutions will be considered complementary to the supermarket distribution channel. Customers who purchase TARTINA products one month at their place of work will be directed to make a repeat purchase at the supermarket. Sales agents will prospect institutions for large contracts.

1. **Petit and Grand Goave**—artisan markets, vendors, and individuals in the two towns located close to the TARTINA production site and ADE offices.
2. **Production Center**—direct sales to individuals in the community and surrounding areas from the center itself.

Serving these markets is cheaper than serving the more distant PAP supermarkets because of lower transportation costs and elimination of at least one link in the distribution chain. Sales from the social enterprise production site and to nearby community members constitute artisan markets.

Quality standards are much lower in Petit and Grand Goave's artisan markets than in the sophisticated commercial markets of PAP. The artisan markets, however, do not offer the large sales volume potential of PAP. Clients in these markets have less disposable income and are far more price sensitive than their PAP counterparts.

Product sales in the vicinity of the ADE office in Colline are also an excellent promotional vehicle for ADE's community work done outside of the social enterprise.

Any other channel through which this market is served is complementary to the supermarket distribution channel in PAP.

II. Method of Distribution

Sales force: Professional sales staff will be the main method for reaching large retail markets in PAP. The experience of sales agents will translate into healthy sales levels and a consistent, professional presentation of TARTINA products.

Direct sales: These are sales by sales staff or clients to employees within an institution or organization. This is an appealing market for TARTINA products as institutional employees are willing to pay slighter higher prices than at the supermarket because of the convenience of having the products come to them. It is also a good way to build awareness for the TARTINA brand. There is no competition from local producers in this arena, and employees tend to have a little more time to listen to the TARTINA story than they would have when picking up their weekly groceries. On their own, institutional sales do not offer the potential to achieve the sales volume required to meet the enterprise's commercial objectives.

Clients: Worthy of special note is the recent introduction of clients as sales agents for the Karapinia product in their communities. This is an exciting development at many levels. In the strict commercial sense, sales have been impressive. Additionally, this opportunity has given the clients, those who transform the peanuts and other ingredients into Karapinia, a new understanding of the consumer's perspective. This is already having positive effects on production processes. Clients are also learning new sales skills and other entrepreneurial abilities.

Price Strategy

Pricing your product or service is the linchpin of viability and, thus, one of the most important business decisions you will make. The key is setting a price your target market is willing to pay for your product or service that at a minimum recovers your costs and preferably generates a profit for your social enterprise. No section in the business plan can be completed in total isolation, and this is especially true for price. Pricing decisions are based on your costs, the effect of competition, and the customer's perception of your product's or service's value and the amount they are willing to pay for it. This section provides a framework for developing a price strategy for your enterprise. The decisions you make later in your human resources and operations plans will also have a bearing on price, which may necessitate returning to this section when you prepare your final business plan.

Price Floors and Ceilings

The term ***price floor*** is used to indicate your cost—the lowest price you can offer and still break even. If you decide to set the price below cost, it should be for a temporary, specific strategic purpose such as to introduce a new product to the market.

The ***price ceiling*** is sometimes characterized by "what the market will bear" and hinges on two important variables. The first is customers' "perceived value," or the maximum price customers will pay, based on what the product is worth to them. The second is competitors' prices for the same or similar product or service.

Once you understand the price floor and ceiling, you can make an informed decision about how to price your product or service.

Most social enterprises use cost-based pricing. While it is important to be mindful of costs when setting your prices, also think about your business from the customer's perspective. If the customer doesn't perceive value worth paying for at a price that enables you to cover costs, you may have to diversify your product portfolio or even change the business you plan to enter.

Price Versus Cost

- Cost is the total of the fixed and variable expenses (costs to you) to manufacture or offer your product or service.
- Price is the amount per unit that customers pay for your product or service.

***Price floor*—**the lowest price you can offer your customers and still break even.

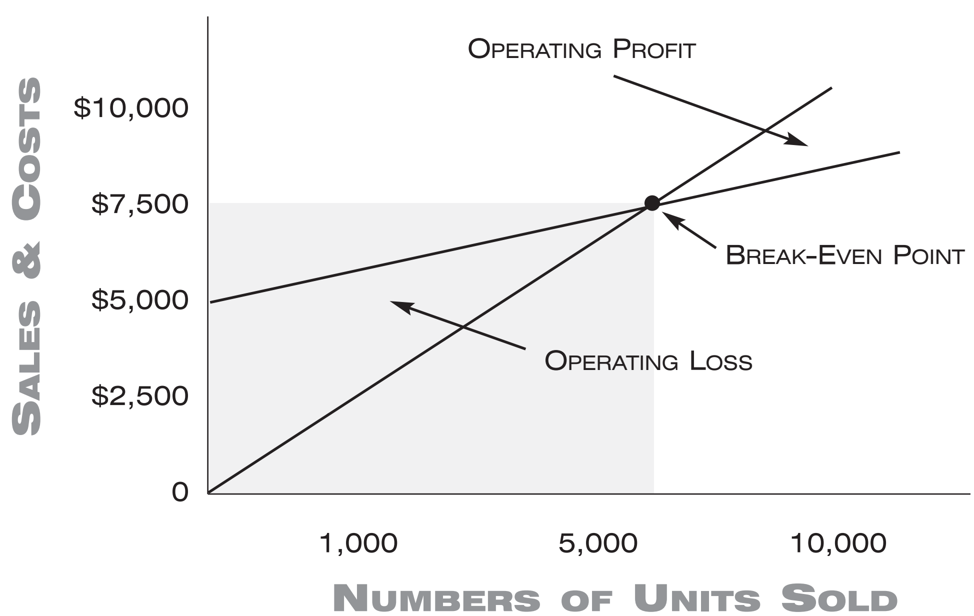
***Price ceiling*—**the maximum price customers will pay based upon what the product is worth to them.

***Break-even point*—**the point at which revenues from sales equal costs.

Break-Even Analysis

A break-even analysis determines at which point your revenues from sales equal your costs. Called the ***break-even point*** or, aptly, in French, *point mort* or "death point," it also establishes your price floor. Exhibit 5S is an illustration of a break-even in a business. The following exercises will help you determine the amount of revenue your enterprise needs to generate and the number of units it must sell to break even.

Exhibit 5S: Break-Even



Determining Costs

Unit costs—the costs to produce one unit of output.

Rationale:

The first step is to determine the costs to manufacture your product or offer your service. Once you know your costs, you can calculate your break-even point.

Definition of Fixed and Variable Costs

Variable costs are the expenses that vary with the amount of services rendered or goods produced. They include costs such as raw materials, transportation costs for distributing products, inputs or materials used, and wage or piece-rate labor. For example, the number of trainers you hire to teach business development courses may be dependent on how many classes will be taught. For TARTINA, the quantity of peanuts needed is dependent on the amount of peanut butter made. Some variable costs, like technical consulting expenses, are not specifically related to units produced yet fall into this category.

Exhibit 5T: Example of Unit Variable Costs for TARTINA

Plain Peanut Butter (16 oz.)	Price in Gourdes[1]
Peanuts	5.000
Transportation (1 sack of 16 marmites over 1 km at 1.50 gde/sack)	0.060
Storage (1 gde for 1 sack of 16 marmites of peanuts)	0.000
Wood for heating	1.000
Water (1 bucket/1 km)	0.060
Salt	0.200
Grinder (500 gdes/5,000 times)	0.100
Pot (100 gdes/1,000 times)	0.010
Wooden spoon (1 gde/1,000 times)	0.001
Metal spoon (5 gdes/1,000 times)	0.005
Straw winnowing tray (20 gdes/1,000 times)	0.020
Small bucket (3.5 gdes/1,000 times)	0.004
Small wooden table (100 gdes/10,000 times)	0.100
Apron (75 gdes/5,000 times)	0.015
Tablecloth (75 gdes/2,000 times)	0.004
Screen (75 gdes/5,000 times)	0.015
Gallon jug (3 gdes/500 times)	0.006
Labor (1/2 hour at 4 gdes per hour)	2.000
Transportation to PAP (1 bucket = 45 jars at 8 gdes/bucket)	0.180
Depot fee	0.050
Label	1.000
Jar	10.000
Total	**19.531**

[1]Gourdes are the local Haitian currency; there are 16.5 gourdes to $1 US.

Calculating Variable Costs

Calculating variable costs is trickier than calculating fixed costs because it requires breaking out costs of all inputs used in producing *one unit* of a good. Therefore, if you are offering a training service, you will need to calculate all costs related to providing that training. This might include a contracted trainer's fee, materials, space (if you plan to rent space outside your regular office), snacks you will provide, etc. Reusable supplies, such as pens, need to be costed by their ***estimated life span***, or their total cost divided by the number of times you can use them.

There are simpler methods to determine variable costs than ours, exhibit 5T; we recommend that you round-off to make this task more user friendly. Our example is presented this way for demonstrative purposes.

Explanation of TARTINA's Variable Costs

TARTINA's variable manufacturing cost per 16-ounce unit of peanut butter is 19.531 gourdes (rounded off to 19.5). Prices for peanuts, TARTINA's largest variable cost, fluctuate depending on the harvest, going as high as 16 gourdes per marmite (5.5 lbs.) and squeezing margins. The competition sells its peanut butter for between 30 and 35 gourdes in supermarkets. This gives TARTINA only 10.5 - 15.5 gourdes per unit margin ($0.63 - $0.93) when peanuts sell for the low price of 12 gourdes per marmite to cover its fixed costs and earn a net profit (profit after expenses). In addition, when distributing through supermarkets, TARTINA has to determine a wholesale price that includes room for retailers' 20% markup. Therefore, Mamba's selling price to supermarkets is 25 gourdes per unit, and the supermarket's selling price is 33 gourdes for TARTINA brand.

Fixed costs, or "overhead" (for development projects these costs are also referred to as direct costs), are the expenses that don't vary according to production volume or number of services rendered. They usually include rent for office and storage space; insurance and utilities; office equipment, such as telephones, fax machines, computers, radios, etc.; audits and evaluations; and salaries or a portion of salaries attributed to the project. Depreciation of assets is also a fixed cost.

Total fixed costs are found in the Profit and Loss Statement on line item "total operating costs" (Chapter 8 "Financial Plan").

Allocating Overhead: A "Quick and Dirty" Calculation

For social enterprise programs working through one or more partners, difficulties in assigning overhead can occur. This is particularly true if the partners engage in several activities unrelated to the social enterprise program and if any costs are shared between programs, such as office space, transportation, supplies, and staff.

One simplified method of assigning overhead is as follows:

1. Add the total costs of the organization for all programs, excluding salaries and fringe benefit.
2. Then divide by the total number of staff members. This will give you a dollar value of overhead per staff member, excluding salaries and fringe benefits.
3. Next, make a list of staff members involved in the social enterprise program and
4. In the next column the amount of time they dedicate to it.
5. Then note each staff member's salary plus fringe benefits in a dollar amount. In our example, the production manager spends 100 percent of his time working for the enterprise, and his full salary is $6,500 per year including fringe benefits. The director spends 10 percent of his time on enterprise activities, and his salary is $25,000 per year including fringe benefits.
6. In the next column, calculate a dollar value for overhead allocation based on the percentage of time worked on the project. For example, since the director is charged 10% to the program, his allocation to overhead is $10% of $1,200, or $120.
7. Total the columns for salaries and overhead allocation. Adding the totals for the two columns will give you a figure for overhead or fixed costs to allocate to your social enterprise. (See following example.)

Obviously, this method is not 100 percent accurate, but it is probably a close enough estimate.

Example (fictitious Organization):

(1) Total organizational overhead: $30,000 per year (excluding salaries and fringe benefits)

Total staff (all programs): 25

(2) **Formula:** $\frac{\$30{,}000}{25}$ = **$1,200** for annual overhead per staff member

(3) Personnel	(4) Time on Project	(5) Percent of Salary + Fringe in $	(6) Overhead Allocation	(7) Total
Business Manager	50%	$10,000 (.5 of $20,000)	$600 (.5 of $1,200)	$10,600
Production Manager	100%	$6,500	$1,200	$7,700
Trainer	30%	$4,545 (.3 of $15,000)	$363 (.3 of $1,200)	$4,908
Marketing Manager	100%	$18,000	$1,200	$19,200
Director	10%	$2,500 (.10 of $25,000)	$120 (.10 of 1,200)	$2,620
Secretary	25%	$1,000 (.25 of $4,000)	$300 (.25 of 1,200)	$1,300
Total		$42,545	$3,783	$46,328

***Sensitivity analysis*—**a tool used to project expense and income levels by manipulating cost and revenue variables in a company, such as changes to production level, costs of inputs (fixed or variable), or prices.

Calculate Break-Even Points

The break-even analysis considers four variables: fixed costs, variable costs, quantity and price. The most commonly used break-even point determines the number of units that must be sold for an enterprise to cover its costs. Yet it can be also used as a ***sensitivity analysis*** to derive the break-even at different levels of output, prices and fixed and variable cost structures. The best approach is to isolate the variables over which you have the most control and focus on them when analyzing your break-even.

Quantity—What does your market research tell you about the size of your target? (chapter 3) What is your level of capacity; how much are you capable of producing? (chapter 6)

Price—How much are your customers willing to pay for your product? (chapter 3)

Variable costs—Are your variable costs well estimated and calculated for present time and near future? (chapter 5)

Fixed Costs—Are your fixed costs reasonable to support your operations? (chapter 6, 7, and 8)

For example, making peanut butter is a variable cost business, meaning that a large part of its cost depends on the price of the raw materials, peanuts, which range from as low as 10 gourdes per marmite to as much as 16 gourdes per marmite. When prices of peanuts go up, margins narrow, and TARTINA must produce and sell more to cover its costs. Therefore, TARTINA should calculate its break-even at different variable cost levels to determine how much the price of peanuts affects its bottom line.

Break-even is presented here, rather than in the chapter on finance to emphasize *the importance in formulating a price strategy based on real costs.*

Marketing manager, production manager, business manager, PO business advisor, accountant, partner program manager, sales staff

Calculating the Break-Even Point

To complete this section, you will need historic information on the variable and fixed costs of your enterprise. **If yours is a new venture, you may need to first work through the rest of the manual to have enough information to calculate your break-even point.** Full details of TARTINA's financial information can be found in chapter 8. Its production costs are presented in chapter 6.

▲ A lot of pricing is chicken and egg stuff. Arriving at the right price takes several iterations.

▲ Begin by calculating your variable costs for each product or service (19.5 for Mamba).

▲ Then, estimate annual production costs by product. Production costs are derived by multiplying variable costs per product by the number of products you plan to produce over a year; these figure are then added together. Therefore, 18,300 total units of Mamba are projected at a cost 356,850 gourdes or $21,627 (19.5 x 18,300).

▲ Total production costs for all products. TARTINA's total annual production costs are $45,974 of all four types of products.

▲ Now, what is the breakdown of production costs per product in percentage (some products have higher unit manufacturing costs than others)? For example, Mamba production costs are $21,627 out of a total cost of $45,974. Expressed as a percentage, that's 47%, whereas, Karapinia and Grenadia represent 14% each and Chadèque 25%.

▲ Next, you will have to allocate your total fixed costs based on the percentage of production costs for each product manufactured.
  - TARTINA's total fixed costs are $146,729; 47% of this figure is $70,372. Therefore, $70,372 of fixed costs are then allocated to Mamba.

▲ Input fixed and variable costs into the following break-even formulas.

▲ Calculate break-even points for each product.

▲ Perform a *sensitivity analysis* to test break-even by manipulating different cost, output and price variables.

Formula for Calculating Break-Even Units

To determine how many units must be produced and sold to break even, use the following formula:

$$\frac{\text{Fixed costs}}{\text{Price per unit} - \text{Variable cost per unit}} = \text{Number of units needed to break even}$$

*The denominator for this formula is also called ***unit contribution margin*** (selling price per unit – variable cost per unit).

Unit contribution margin—captures the profit margin plus the fixed costs per unit sold. Unit contribution margin is used in the break-even calculation to determine how many units of a product or service must be sold to equal the fixed and variable costs.

EXAMPLE #1: CALCULATING BREAK-EVEN NUMBER OF UNITS FOR MAMBA

Data Needed:

- Variable costs per unit for Mamba = 19.5 gourdes ($1.18)
- 47% fix cost allocation for Mamba is $70,372
- Selling price for Mamba is 25 gourdes to supermarkets ($1.52)
- Currency exchange: 16.5 gourdes = $1 US

Formula: $\frac{FC}{P\text{-}VC} = Q$ $\qquad \frac{\$70{,}372}{1.52 - 1.18} = 206{,}976$

TARTINA must sell 206,976 units of Mamba to break-even. *Ouch!*

EXAMPLE #2: CALCULATING BREAK-EVEN REVENUE FOR MAMBA

For demonstrative purposes only.

Formula: $\frac{FC}{1\text{-}(VC/Price)P\text{-}VC} = Q$ $\qquad \frac{\$70{,}372}{1\text{-}(1.18/1.52)} = \$319{,}872$

Mamba has slim margins of just $0.34 per unit. Therefore, at the current selling price and production costs, **TARTINA needs revenues of $319,872 just to cover its costs of Mamba. *Ouch!***

This of course is not the full picture. TARTINA has not projected break-even until year seven, which could mean that they are right on target with planned sales of 18,300 units of Mamba for revenue of $27,727 in the first year.

Results

Results of the break-even analysis can tell you if your enterprise is potentially viable. They evoke questions like: Do we have the capacity to manufacture X amount of product or render X number of services? Is there a sufficient market for this quantity of services or products? Does our enterprise structure support the marketing functions necessary to sell this quantity at our break-even price or above it? If breakeven results appear daunting, how are they projected over time? Do they become more attainable as the enterprise operates with greater efficiency? *If not, are you in the wrong business?*

PRICE ELASTICITY AND SENSITIVITY

Rationale:

In analyzing the buying sensitivities of your target market, one variable was price. Understanding how sensitive your market is to changes in price helps you determine how much "wiggle room," or ***price elasticity***, you have to raise your prices. Factors that influence *price elasticity* are supply and demand: the availability of the product or service and of good substitutes, their respective prices, and the extent to which the product or service is desired. If ample supply exists through competitors and substitutes, that puts downward pressure on your price. On the other hand, if demand is high for a product or service, exceeding what can be supplied through competitors and substitutes, price elasticity is high, meaning that you will have room to increase prices. Customer purchasing power and staying power (ability to do without a given product or service) are other factors that contribute to price sensitivity.

Price elasticity—measures customers' responsiveness to changes in price via quantities purchased.

Unfortunately, most social enterprises have little flexibility when pricing their products and services. This is because they operate in industries characterized by low barriers to entry and high competition or because they render services to disadvantaged business owners that have little money to spend on services.

This manual gives no explicit exercise to establish price elasticity for the products or services in your industry. Merely reflect on the information you gathered during market research (which should be sufficient to denote price elasticity) and apply it when developing your price strategy.

PRICE STRATEGY

Once you have calculated your break-even points and studied price sensitivity, you are ready to set your price.

Using Subsidy in Price

If you are considering subsidizing your price with donor funds, you should be aware of (1) the amount of subsidy provided, (2) how it is being used (subsidizing what), (3) what its purpose is, (4) its duration, and (5) your plan for self-reliance. Using donor funds to artificially lower prices distorts the market and is not a sustainable strategy in the long term. We recommend that you use subsidy toward covering your fixed costs and that you reflect this in your financial plan (see chapter 8).

STRATEGIES FOR ESTABLISHING PRICE

- Set a low price on one or more products to make quick sales that will support another product in development. (TARTINA could use this price strategy for plain Mamba to support the costs of developing sweet and spicy Mamba.) This strategy increases cash flow, even though it might mean a net loss for the period.
- Set the price to meet a desired profit or sales goal, indicated in the marketing objectives.
- Establish a high price to make high profits initially. This strategy is used to recover research and development costs or to maximize profits on an introductory product before competitors enter the market. (TARTINA entertained this strategy as an option for pricing Karapinia.)
- Set a price equal to the competitor's. This strategy is often used with commodities, when prices are relatively well established (e.g., peanut butter), or when there is no other basis for setting the price. When using your competitor's price as your "ceiling," the challenge is to lower your costs below that ceiling so you can generate more revenue.
- Establish a low price (compared with the competition's) to penetrate the market and capture a large number of customers. This strategy can also be used to achieve nonfinancial marketing objectives such as product or brand awareness. It works if you are able to maintain profitability at a low price through high sales volume and efficient service delivery/production. Most private companies that use this strategy subsidize prices in the short term to achieve penetration, then raise their prices.
- Base the price on the customer's perception of the value of your product or service. This price strategy is one of the most important in social enterprise programs that render services to the self-employed. Financial service programs do an excellent job at providing services at higher-than-market prices, based on value to their customers. To use a value-based price strategy, you will have to be thorough in your market research and fully aware of the benefits your customers want and the perceived value of those benefits (how much are they willing to pay for them).
- Charging "what customers are willing to pay" is usually a nonstarter. This passive approach to pricing is sometimes used by social entrepreneurs who want to be fair to their low-income clients. But price is a business tool. "Withstanding the test of the market" is both pricing your products appropriately and giving customers something they want.

PRICE STRATEGIES LINKED TO DISTRIBUTION AND PROMOTION

- Your pricing strategy might include discounts for customers who offer you a business benefit; for example, giving cash discounts to customers who pay promptly or in advance of receipt. This rewards those who help your social enterprise maintain a steady, positive cash flow. Offering discounts for large orders often makes economic sense when the cost per unit to sell or deliver a product declines as the quantity increases.
- Seasonal discounts given to buyers who purchase during a product's slow season reward customers who assist the social enterprise in balancing its cash flow and in meeting production targets.

- Trade-in allowances for return of old products that you can either reuse or resell for a profit may benefit both the social enterprise and customers.
- Promotional allowances often make financial sense and should be linked with promotional strategies. For example, you might offer reduced-price coupons at point-of-purchase displays or outlets that sell your social enterprise's product. First-time "low-price" offers are a way to attract new customers.

Same as previous exercise

Formulating a Price Strategy

- ▲ Use break-even point analysis as a starting point for your price strategy.
- ▲ Reflect on the price strategies described above and consider which ones may be appropriate for your product or service.
- ▲ Use the list of questions in the Price Strategy Framework (below) as a guide to developing a basic price and beyond basic price strategy.

Price strategy is included in the Business Plan.

PRICE STRATEGY FRAMEWORK

(Also see example of how questions are used to formulate a price strategy for TARTINA, exhibit 5U).

Basic Price

- At what basic price should each product or service be set?
- Will the basic price be different for different customers? For example, when distributing through a middleman such as a retailer or trader, you must also consider the price he will charge the consumer and leave room for the middleman's markup.

The basic unit price of each product should be assessed with the following points in mind:

- Prices should help achieve the marketing objectives.
- Prices need to be set to cover variable costs and contribute to covering fixed costs with the sale of each product.
- Will prices be the same as, higher than, or lower than those of the competition?
- Can price be a competitive advantage for any of your social enterprise's products or services?
- Is price one of the most important criteria used by the consumer in selecting your product? How price sensitive is the target market for each product or service?
- With price comes a certain perception. A lower price is not always the best strategy. A higher price is often associated with higher quality. Is this the case for your enterprise's products or services?
- Is the pricing objective to "skim" the market—take a small piece of the market with a larger profit margin—or to "penetrate" the market—offer a lower price with the objective of wider sales?
- How will pricing impact accounting systems? Is your social enterprise's accounting system able to capture a complex pricing strategy?

Beyond Basic Unit Price

- Determine strategies for discounts and allowances, one price vs. flexible pricing, different prices for different geographical locations, freight absorption (transportation costs included in price)—***free on board destination*** pricing, vs. ***free on board shipping*** dictates whether the supplier or the buyer pays shipping costs in the price.
- What are competitors' strategies on these fronts? Is there an opportunity for your social enterprise to offer a competitive advantage?

Free on board destination (FOB)—when the supplier bears the shipping costs.

Free on board shipping point—buyer bears transportation costs from point of origin.

Exhibit 5U: Price Strategy for TARTINA Enterprise

1. Context

Market research into customer buying motives for the products in the TARTINA product line was conducted in January 1999. This research confirmed that price sensitivity runs high for every product in the product line. The degree of price elasticity depends on the distribution channel and the maturity of the product. In terms of distribution channels, direct sales offer the greatest room for flexibility given that purchasers are willing to pay extra for the convenience of having the product come to them. Supermarkets in PAP, however, offer little margin for price flexibility because stiff competition from other local brands on the shelves pushes prices down. There is an another element of the supermarket distribution channel that affects the ability of TARTINA Enterprise to raise its prices. In this market, TARTINA acts as a wholesaler; the supermarket is the intermediary that sells to the consumer. This additional link in the distribution chain limits TARTINA's ability to raise prices.

The fewer links that exist in the distribution chain outside of PAP offer an advantage in pricing flexibility. However, this advantage is offset by the lower disposable income of the customer target group in areas outside of PAP.

The "new" products of Karapinia, passion fruit jam and sweetened peanut butter, will translate into some room to increase prices. Such increases will not be significant, however, given the overall price sensitivity of clients purchasing foodstuffs and the unstable economic situation in the country.

2. Pricing Strategy

The pricing strategy for products in the TARTINA product line reflects the following considerations:

- It covers unit variable costs and a percentage markup to spread over fixed costs.
- Sales prices will remain competitive, but competing on price is not the most important basis of competition. The comparative advantages of TARTINA products lie in characteristics and benefits other than price, and these will be the most important factors in positioning the products vis-a-vis the competition's.
- The plan is not to undercut competition using donor funding because we want customers to switch to TARTINA from the competition (for peanut butter and grapefruit jam) for reasons other than price. We want to create brand loyalty. Likewise for new products, we are targeting customers who are open to trying

to new products and new flavors—for whom price is not the No. 1 factor when deciding to purchase a new product.

- The seasonality of raw materials (fruit and peanuts) is not reflected on the supermarket shelves. For jams and jellies, shelf life is up to two years. This permits producers to process enough products during the harvest season to last the rest of the year. No price increase is evident during the year for jams and jellies. For peanut butter, there is a slight increase in supermarket prices toward the end of the two peanut harvest seasons. This increase is kept minimal, however, by the fierce competition between local brands.

3. Per-Unit Prices for Each Product (16 oz. size)

For Supermarket Customers:

Mamba: 25 gourdes	Karapinia: 5 gourdes (small satchel)
Chadèque: 26 gourdes	Grenadia: 26 gourdes

Prices will be modestly higher (2 to 3 gourdes) for individual and institutional customers.

Note: Prior to developing the business plan, TARTINA conducted a feasibility test that eliminated products that were not (and did not have the potential to be) financially viable.

Promotion Strategy

The overall objective of your promotion strategy is to contribute toward achieving the marketing objectives. It is the vehicle for informing your target market about your enterprise and the products or services it is offering in the marketplace. Although many social enterprises place significant emphasis on providing services or products appropriate for their target market, ironically, few focus on raising awareness of their existence once they are available in the market. Attracting customers through promotional efforts is a critical piece of the viability equation, and it requires money. The original TARTINA budget allocated substantial financial resources to training and supplies but included zero resources for promotion. It is a mistake to assume customers will automatically become conscious of your products, and of the benefits they offer, without an organized campaign to impart this information. Since money in social enterprise programs is always limited, your promotion strategy must be developed with care and creativity. Much of the information gathered in chapter 3 on the characteristics of your target market and how to reach customers will help you with developing your promotional strategy.

A promotion plan articulates:

- How you will raise customer awareness of your products or services.
- What message you will convey to your customers.
- Specific methods you will use to deliver and reinforce your message.
- How you will secure sales.

Logos

Rationale:
A logo is a visual picture that reminds people of who your enterprise is and what it does. Recognizable logos—for example, for the Olympics, Mercedes, Nike, or Microsoft—immediately remind people of the firm and the products or services it sells. Logos are especially important promotional tools for social enterprises that target illiterate customers.

Tips for Creating Logos

- A logo is a visual picture that reminds people of who your business is and what it does.
- Logos can be abstract.
- Don’t try to tell a complicated story with a logo; keep it simple.
- Logos should use symbols that are easy to remember and recognize.
- Put the name of your social enterprise under your logo to reinforce identification.
- Employ a graphic designer or use a computer art program to help create a logo.

Marketing manager, sales staff, business manager, PO business advisor, partner program manager, external graphic artist (if desired)

Creating a Logo

- ▲ Create a logo for your social enterprise. Solicit assistance from a graphic designer if necessary.
- ▲ All key enterprise stakeholders should agree on the firm’s logo.

The Promotional Message

Rationale:
Every enterprise sends a message in its marketing; this message should motivate customers to purchase your product or service and state your competitive position. The promotional message can emphasize particular benefits, such as “low-price leader,” “convenient one-day service,” or “always fresh.” A message can also exploit a market niche, as in “Telecommunications Serving Kampala Small Businesses” or “Palm Oil Marketers.” It can also be more subtle, triggering a customer’s emotions or self-image, like this one from an alternative-jobs newspaper: “Change your job, change the world; work for social change.” All Americans are familiar with the emotional appeal of McDonald’s marketing message, “You deserve a break today.”

Exhibit 5V: TARTINA Promotional Message

TARTINA Enterprise changed the message “100% natural,” which focused on product benefits, because it seemed too limiting, since it applied only to spicy and regular peanut butter. The new message—“Tastes and feels sooooo good!”—draws attention to product quality and to the benefits TARTINA products provide to the community.

Same as previous exercise

Creating a Promotional Message

We have already noted that customers mainly buy the benefits that products and services provide, not their features. In other words, customers are more concerned about how a product or service will affect their lives than about how it achieves those results. In writing your promotional message, you must tell customers *what they will get when they purchase your product or service*, such as security, an enhanced self-image, a more profitable business, etc., rather than detailing what your product does.

▲ Begin by reflecting on three of the "four P's" of marketing discussed at the beginning of this chapter:

Product: What are the benefits your product or service offers that customers are seeking?

Price: Is there a cost advantage of your product or service for customers?

Place: Are there advantages of convenience or comfort associated with the locations where your products or services will be sold?

▲ Next, use the "five F's" (below) to further analyze how your product or service fills a range of benefits customers look for. Professional marketers, use this "five F's" formula as a way to remember advantages customers are seeking when they make a purchase.

Functions: How does your product or service meet specific needs of your customers?

Finances: How will the purchase of your product or service change your customers' financial situation? Does your product or service render long-term savings benefits, such as increased productivity or efficiency?

Freedom: Will customers gain time and have peace of mind in other areas of their lives if they purchase your product or service?

Feelings: How does your product or service make cus tomers feel about themselves? Will it improve their self-image?

Future: How will your product or service affect their lives over time? Will it be available in the future? Will support and service continue to be available? Will this increase your customers' sense of security?

Exhibit 5W: "Fs" Behind TARTINA Brand

"Tastes and feels sooooo good!"

FUNCTION—TARTINA's yummy tasting peanut butter in several savory flavors.

FINANCIAL—Less expensive than many other brands, saving money over time.

FREEDOM—Guilt free high protein food; contributing to social good by purchasing TARTINA brand; available in many convenient locations; expiration date ensures freshness.

FEELINGS—fosters "good parent," "concerned citizen taking action" self-image.

▲ Now you probably have a substantial list of benefits your product or service offers customers. Customers want as many benefits as possible, but you will have to prioritize which ones to emphasize in your promotional message. Bear in mind that there are other ways than your promotional message to communicate the benefits of your product or service, such as excellent service or a high-quality product that speaks for itself. Concentrate on the one or two benefits that will most effectively motivate customers to purchase your product or service and that most strongly define the competitive position of your enterprise.

▲ Write your promotional message. It should be very brief—no more than one line—and simple, so that it is easy to remember.

The Promotional Vehicle

Rationale:

Once you have decided on the message you want to convey, you must then figure out how that message will reach customers. There are many marketing mediums to consider. Advertising, trade shows, and public relations efforts are just some of the possibilities. Some promotional vehicles will be more suitable for your enterprise and product/service than others. This section is designed to help you focus on cost-effective promotional vehicles that will yield the best results—i.e., increase your sales.

Selection of Promotional Vehicles

Quantity, cost, mix, and fit are important considerations when selecting promotional vehicles for your enterprise. Be sure that the medium you choose will actually reach your target customers and that it is appropriate to your image. Most customers need to be exposed to marketing materials several times before they decide to purchase a product or service. Therefore, repetition and exposure from a variety of different sources are also important considerations. Finally, affordability can be a strong factor in selecting which promotional vehicle you will ultimately use.

The Wrong Promotional Vehicle

If your enterprise offers business services to poor entrepreneurs who cannot afford luxury items, or lack basic infrastructure like electricity, television is probably not the best way to reach them. Television is also a powerful medium that can easily intimidate or alienate poor people, possibly contradicting the image of a trustworthy business aimed at helping them. In addition, TV advertising is very expensive and a good way to blow your program's promotional budget in one fell swoop.

Types of Promotional Vehicles

- **Brochures**—leaflets, informational handouts, inserts. Brochures are an excellent low-cost promotional vehicle as long as your target customers are literate. Brochures are especially useful for service businesses because they enable you to describe your services in lieu of tangible products.
- **Print media**—advertising in newspapers, newsletters, magazines, and trade and specialty publications. Cost varies greatly for print ads: from little to nothing for ads in local newsletters to expensive ads in publications with national circulation. Before buying ad space in a publication, be certain that its readership matches your target market.
- **Posters/fliers**—a low-cost option. These can be posted locally or handed out in communities. Fliers and posters are a good means of advertising events or "act-now" opportunities to try your product or service.
- **Broadcast media**—radio and television. Although television is inappropriate for social enterprises in many markets, well-targeted radio advertising can reap surprising benefits.
- **Direct mail**—mass-mailed fliers, catalogs, brochures, and coupons. Direct mail is generally associated with high costs and low returns. Moreover, it is a highly impractical form of promotion in developing countries.
- **Public relations**—public service announcements (PSAs), celebrity spokespersons, newspaper feature or news articles. These are seemingly attractive promotional vehicles for social enterprises because they are free. Although public rela-

tions can yield positive benefits, relying on them as part of your promotional mix is unwise because of the hidden costs of time spent writing and sending out press releases or efforts to solicit journalists that go nowhere. And since it is difficult to control what a journalist will write, PR can distort your enterprise's public image. In the end, these articles often do not even reach your target customers. If you choose to use public relations as a promotional vehicle, be discriminating, realistic, and clear about your objectives. Select community publications or newsletters that are compatible with your reputation and image. Pursue "celebrities" you have access to who will draw the attention of your target customers. For example, a soccer player from a regional team may be more appropriate than a movie star.

- **Advertising gifts**—giveaway items emblazoned with your enterprise's logo, such as stickers, calendars, desk sets, T-shirts, and magnets. These items vary in cost but can be an effective means of developing brand recognition. Stickers are relatively inexpensive and are popular in many countries.
- **Sampling**—distribution of free product samples. This promotional vehicle is especially useful for introductory products, when you want to promote use or knowledge of a new product rather than a known product. There are costs of staff time to give out samples and the cost of the product itself.
- **Informal marketing**—activities such as speaking at public events or attending conferences. Like public relations, informal marketing offers a cost advantage but often does not reach a social enterprise's target customers. There may be other advantages to informal marketing, such as developing strategic alliances or raising public awareness for your firm. Be clear about your objectives before committing time to this promotional vehicle.
- **Telephone directory listings**—an often overlooked but cheap and appropriate means of promotion for many social enterprises.
- **Trade shows**—useful for two reasons. Participation in trade shows raises your profile and offers new business opportunities, such as strategic alliances with commercial partners or sharing information. Trade shows, however, can be costly in staff time and exhibition costs if not well targeted.
- **Merchandising displays**—on-site, point-of-purchase offers presented to customers at the time of sale to encourage impulse purchases. Merchandising displays are good promotional vehicles for cross-selling products because they allow an enterprise to display its full product line. They are also an effective branding mechanism. Note that some retail outlets may charge for displays that take up shelf space.
- **Billboards**—brightly colored signs with your logo and a strong visual image. These are an excellent choice in countries sensitive to brand image and with low literacy rates among target customers. The cost varies by country, depending on whether the billboard is a formal means of paid advertising controlled by the state or simply a sign erected on a public roadside by the enterprise itself.
- **Special offers**—discounts, two-for-one deals, free trials, etc. Such enticements enable your social enterprise to increase sales and build its market share. The costs of discounted prices or giveaways must be figured into your bottom line.
- **Information meetings**—an oral presentation introducing your enterprise and its services or products. This form of promotion, often used by microfinance institutions, is also a good way to attract potential customers to service businesses. Information meetings are particularly effective when you target market is not literate.

Business manager, marketing manager, PO business advisor, sales staff, accountant

Planning Your Promotional Vehicles

Locate the **Promotional Vehicle Worksheet** (exhibit 5X) in *The Workbook* or create your own. This exercise is a precursor to preparing your promotional strategy and budget.

▲ Reflect on the information gleaned about your target customers in chapter 3 as you look through the list of promotional vehicles and answer the following questions.

▲ **Reach**. Which promotional vehicles will best reach your target customers, in terms of both geographic location and your customers' access to the vehicles used?

▲ **Fit**. Which ones best fit your enterprise's image and the product you want to promote?

▲ **Frequency**. How often and when will you use the promotional vehicles? Are there seasonal upswings or downturns in your business cycle?

▲ **Cost**. What costs are associated with using the vehicles? Will you have to buy space or contract for professional assistance (in design, printing, production, advertising, or public relations)?

▲ What are the *annual costs* for your promotional vehicles? This information will be used as the basis of your marketing budget in the financial section of your business plan. Don't forget to calculate costs of staff time or product samples in your projected annual promotion costs.

Exhibit 5X: Promotional Vehicles for TARTINA

Vehicle	Reach	Fit	Frequency	Cost
	1 (low) - 5 high)			(per year)
Print	-	-	-	-
Broadcast	-	-	-	-
Direct Mail	-	-	-	-
Brochures	2	2	Annually/or as needed to update information	$550
Flier/poster	3	3	New product launches/ promotional campaigns	$360
Sampling	2	5	Monthly, each major retailer	Covered by sales salaries
Informal	1	1	When opportune; ADE Director	N/A
PR	4	2	Quarterly press releases	N/A
Trade shows	4	5	Biannual PAP Food Fair	$800
Gifts	-	-	-	-
Phone book	2	1	Annual space ad plus phone listing	$25
Displays	4	4	Two months per year, major retailers	$400
Billboards	4	3	Once, sign on main road to Colline	$30 to artist
Information meetings	1	3	When opportune for direct sales agents	N/A
Special offers	2	4	Quarterly to correspond to product launcher, academic year, summer and post X-Mas	$500 in redeemed coupons
TOTAL COSTS				**$2,665**

Licensing Can Help Serve the Double Bottom Line

Licensing offers certain advantages to social enterprises concerned with meeting the social objectives. A licensing agreement with a private, for-profit firm relieves a social enterprise from business management so it can stick to the social business of "doing good." Licensing also provides the enterprise with a guaranteed market and high-quality technical assistance, although revenues will be substantially less than if the social enterprise managed the business itself.

For example, the social objectives of your enterprise might be to supply jobs to and develop the technical competence of clients who produce leather goods. Your enterprise might choose to focus on core competencies like production techniques and community organizing rather than manage multiple business functions. In this case, the enterprise might license the entrepreneur-made products to a company that would handle marketing of the leather goods.

Low-/No-Cost Promotional Options

In addition to using the aforementioned conventional promotional vehicles, you can employ a number of creative options to promote your enterprise. Usually, little additional cost is involved, and these options can produce tremendous benefits. Consider the following when you prepare your promotional plan.

- **Cross-selling**—exhibiting several different products in one display. Cross-selling builds brand awareness across multiple products and entices customers to try your other products if they are already familiar with one.

- **Personal sales**—carried out by sales, marketing, or other staff at sales locations. Staff members can add a personal touch by offering customers samples to try, telling them about the products and the enterprise, and giving out coupons.

- **Strategic alliance**—a complementary company with which you share promotion, sales, or distribution functions. Several types of alliances can be formed:

    - *Joint advertising*—when two firms are mentioned in a single ad and share the costs. Special events are popular among nonprofits; firms underwrite the costs of an event and display their banners, T-shirts, and literature at the event.
    - *Licensing*—when one firm grants another permission to use its name, trademark, or product. For example, Save the Children licenses its name and logo to a clothing manufacturing company for a line of ties and scarves distributed in retail outlets. SC receives financial benefit for its programs and increases its name recognition without having to manage a clothing business.
    - *Professional or in-kind exchanges*—a creative way to broker promotional deals through nonfinancial exchanges with businesses that want services or products from your enterprise. In the Moscow Winter Olympic Games, a noncash deal worth more than $1 million, trading coffee and programming for advertising, was brokered between Columbia House Coffee, the games' sponsor, and Turner Productions.

- **Referrals and testimonials**—a satisfied customer is the most powerful means to promote your social enterprise. Your job is to "delight the customer" so the customer will refer your enterprise and services/products to others. You can capitalize on customer referrals by inviting satisfied customers to speak at information meetings or help with samplings, product demonstrations, or special promotions. Also, you can make their comments indelible by including them as testimonials in printed promotional material.

- **Cause-related marketing**—exploiting the social value of your enterprise for advertising purposes. Cause-related marketing can take the form of a strategic alliance (above) with another firm (usually a large corporation) that provides money, technical assistance, and/or promotion in exchange for using your social enterprise in its advertising. The corporation is usually motivated by the opportunity to improve its public image, smooth community relations to make way for business expansion or penetrate new markets. Some well-known examples include Benetton's sponsorship of AIDS awareness and American Express' raising consciousness for hunger relief with Washington, D.C.-based Share our Strength (SOS). Some social enterprise entrepreneurs find it demoralizing to join ranks with large corporations, believing that they are exploiting their target population, while others find that mutually beneficial relations are forged.

A more applicable form of cause-related marketing is to allude to social objectives in your promotional messages, literature, and advertising. Although this is a good way to get publicity, it can be a double-edged sword. A social enterprise bakery found that it lost customers when it advertised that its bread was made by internally displaced people and refugees because that conjured up images of unsanitary manufacturing conditions. TARTINA Enterprise discovered that social consciousness was generally low among its poorly educated consumers in Haiti, but many retail customers chose to carry TARTINA products because they wanted to support the cause.

Same as previous exercise

Planning Low/Cost Marketing Options

▲ Locate the Low-/No-Cost Promotional Options Worksheet in *The Workbook* or create your own. Exhibit 5Y provides an example for TARTINA

Exhibit 5Y: Low-/No-Cost Promotional Options for TARTINA

Vehicle	**Reach**	**Fit**	**Frequency**	**Cost** (per year)
Cross-selling	4	5		No additional costs
Personal sales	3	4		Covered by sales salaries
Strategic alliances ***Type:***				
Referrals	1	4		No additional costs
Cause-related marketing	2	3		Time to forge corporate relationships
Other				
TOTAL COSTS				**-0-**

1 = worst choice **5 = best choice**

Packaging

Packaging refers to a product's physical package (box, container, jar, wrapping, etc.) or labels, or a service's presentation. Although packaging does not fall directly under the auspices of promotion, good packaging can certainly help promote products and services. Moreover, it is an aspect of marketing that is sorely undervalued by social enterprises and, therefore, is worth mentioning here.

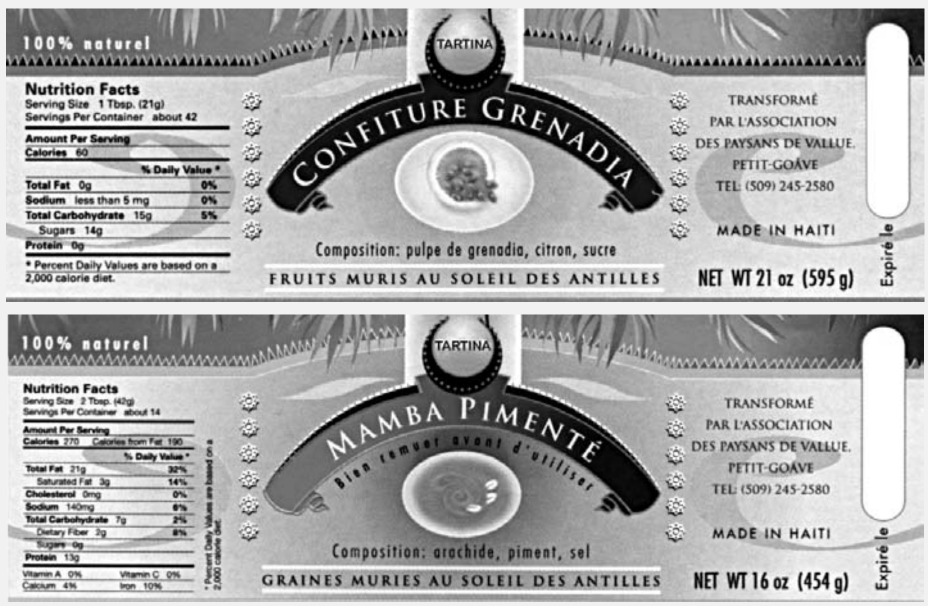
Packaging enhances your professional image and helps commercialize your social enterprise at little or no additional cost, and it doesn't require changing the product or service. TARTINA first used crude plastic containers for its peanut butter that were difficult to open and close and sometimes leaked, dripping grease down the sides and smearing the laser-printed label. Its new jars with screw-on tops are marginally more expensive but, with their new label, are much more attractive and commercial looking (exhibit 5Z).

Tips for Packaging

Packaging has many variables and is difficult to address generically, so we simply give you a few hints for packaging your product or service.

- Remember that because the package of your product or presentation of your service is the first contact a potential customer has with it, the package represents the product's entire identity and image.
- Use the five F's to tailor packaging to customer wants (see TARTINA example in exhibit 5Z below).
- Your packaging should attract—even call out to—your target customer.
- Your name and logo should be clearly visible.

EXHIBIT 5Z: NEW TARTINA LABEL



The new label, a significant improvement over the existing one, has the following benefits:

- It is fashioned after import labels. There is a great demand for imported food-stuffs, which are considered to be of higher quality than the local competition. The new label should have a positive impact on the TARTINA image. In addition, it will attract customers who aspire to purchase imported peanut butter or jam but can only afford local brands. (**feelings**)
- The label was designed with the female shopper in mind; the pastel colors and floral patterns are visually appealing to women. (**functions, feelings**)
- The label includes a paper safety seal, which is an inexpensive way to assure the customer that the product has not been tampered with. This is an important feature differentiating the product from the local competition, which does not have safety seals. (**freedom, future**)
- Similarly, nutrition information is provided on the new TARTINA label, which is a comparative advantage relative to the local competition. *(***freedom, feelings, future***)*

Marketing Personnel

After plotting the vehicles for your promotion strategy, consider the effect of these choices on enterprise personnel. In the cost columns of the two previous worksheets, you were to some extent tasked with reviewing human resource implications. At this point you must examine personnel needs in concrete terms. Will you need to hire marketing staff, or can you outsource the marketing functions?

PO business advisor, marketing manager, business manager, human resource manager (if applies)

Determining Marketing Staff Needs

The symbols and below denote financial and human resource implications of marketing decisions, information that will be used to develop your financial plan. These implications may cause you to revisit some promotional choices.

- ▲ Make a list of marketing personnel by position or task.
- ▲ Indicate whether staff is currently available in-house or you have to hire either new permanent staff or contract for temporary staff.
- ▲ Indicate whether promotional staff is needed on a full-time or part-time basis.
- ▲ Estimate total annual costs for each person. If you need a full-time permanent professional, include benefits in your projections.

Exhibit 5AA: Promotional Personnel for TARTINA

Position/task	In-house	Hire	Contract	One Time or Recurring	Duration	PT /FT	Annual Cost‡
Marketing Manager	✔				FT		
Marketing Assistant							
Market Researcher			✔	1 time (product study)	4 weeks		
Events Coordinator	✔			Recurring	8 weeks	PT	
Alliance Coordinator							
Graphic Designer			✔	2 (label/logo)			
Other							

‡ For permanent staff include salary plus benefits.

Formulate a Promotion Strategy

Your promotional strategy will be a synthesis of the work completed in this section and will be included in your final business plan.

PO business advisor, marketing manager, business manager, sales staff, external marketing consultant (if desired)

Crafting a Promotional Strategy

- ▲ Develop a promotional strategy for your social enterprise.
- ▲ You will have to formulate a promotional strategy for each product or service you are offering.
- ▲ Locate the **Promotional Strategy Worksheet** in *The Workbook* or create your own.

▲ Restate your marketing objectives in the first column, followed by products in the next column, then the promotional vehicles you plan to use, and finally your strategic rationale. The strategic rationale explains how your choice of promotional vehicles will contribute toward the achievement of your marketing objectives.

▲ Refer to the example of TARTINA's promotional strategy in exhibit 5BB for assistance or inspiration.

Promotional strategy included in the Business Plan.

EXHIBIT 5BB: PROMOTIONAL STRATEGY FOR TARTINA ENTERPRISE

Marketing Objective	Product	Promotional Vehicle	Strategic Rationale
Increase brand awareness and sales	Peanut butter and grapefruit jam	Personal sales Point-of-purchase (POP) displays	Customers are already aware of the existence of the products. POP promotion will help TARTINA's voice be heard among the several other competitors on the market.
Product awareness	Karapinia and passion fruit jam	Sampling Point-of-purchase displays	For success in launching the passion fruit jam and the Karapinia products, it is not brand awareness that should rule but awareness of the products themselves, which are virtually unknown.
Increase brand awareness and increase sale levels (sales target of U.S. $58,976)	All products	Sampling	• "Tasting is believing!" It will encourage customers to switch brands, as is required in the competitive peanut butter market, or to purchase a new product, such as passion fruit jam, instead of their regular flavor.
		In-store display posters	• POP and posters can increase the TARTINA brand presence in some stores that currently do not have shelf space available for new brands or new products.
		Point-of-purchase displays	• Multiple TARTINA products will be on display, and promotional staff will offer samples of any or all of the products to interested shoppers to taste (and purchase!).
		Cross-selling	• Cross-selling is cost-effective as it uses one vehicle to simultaneously promote multiple products.
		Personal sales	• The sales will offer a market research opportunity. Promotional agents will gain firsthand information on customers' buying motives and product preferences.
		Special offers	• Coupons and discounts at POP displays will encourage impulse purchases by customers trying TARTINA products.
		Trade shows	• These will be primarily aimed at forming strategic alliances and increasing presence in some stores that currently do not carry TARTINA products.

In summary, the promotional strategy will put its accent on personal sales, product presentation, taste tests, and development of promotional material for in-store displays. Additional funds have been included in the business plan's promotional budget to potentially use in larger-scale publicity material, such as print advertising, PR, and stickers with the TARTINA logo, which are popular among children. The costs and benefits of this type of publicity will be further evaluated before any disbursement of these promotional funds.

Sales Plan

The sales plan flows from the marketing plan. Remember that at least one marketing objective must include a sales forecast expressed in unit sales or currency value. TARTINA uses both in its objectives (see marketing objectives in the first section of this chapter). The sales plan is concerned with turning prospective customers reached through marketing into purchasers. It articulates the structure and strategy of closing deals and the costs to do so.

Sales Structure

Staff members charged with selling responsibilities are the pulse of income generation in your social enterprise. Simply put, without sales there is no income.

Marketing manager, business manager, PO business advisor, HR manager, external sales consultant (if desired)

Establishing a Sales Structure

The symbols and below denote financial and human resource implications of sales decisions, information that will be used to develop your financial plan.

What is your sales structure?

- ▲ Do you have a sales force? How many people?
- ▲ At what point do sales personnel achieve "full capacity"? When do you decide to hire more sales staff?
- ▲ Do you use internal staff (employees) or contract staff (sales firm, free agents)?
- ▲ Do salespeople have additional responsibilities? If so, which ones?
- ▲ Are other people charged with selling your product or service? Who?
- ▲ Who supervises sales personnel/functions? Is this person charged with other responsibilities? If so, which ones?
- ▲ Are individual sales staff charged with different responsibilities? How are responsibilities organized?
- ▲ How is territory divided up among sales staff? Geographical region, product, customer type?
- ▲ What type of training do sales staff receive? How often is training conducted?
- ▲ Who is responsible for training sales staff?
- ▲ How do you ensure that sales targets are met (use a quota system, assign targets for sales staff, etc.)?
- ▲ Summarize sales structure.

<u>Summary included in the Business Plan.</u>

Sales Costs

Marketing manager, accountant, business manager, PO business advisor, HR manager

Estimating Sales Costs

Give careful thought to the following questions, and then project your social enterprise's selling expenses based on your sales structure. All the information in this section will be used in the financial plan. An example is provided in 5CC.

- ▲ How are sales staff remunerated? Salary? Commissions? A combination of the two?
- ▲ Which out-of-pocket expenses incurred by sales staff are reimbursed? Transportation, communications, travel, meals, etc.?
- ▲ Do sales staff receive a petty cash advance?
- ▲ What type of incentive program do you use to motivate staff? Financial bonuses? Nonfinancial rewards?

Sales cost information will be used in the Financial Plan (Chapter 8).

EXHIBIT 5CC: MONTHLY SELLING EXPENSES EXAMPLE

Sales Staff and Status	Base or Salary	Commission	Bonuses	Expenses	Benefits	Training and Supervision
Martine Du Pré Senior sales	$100/mo.	15% of sales price per unit $1,000 for targets (per/mo. quota)	20% of sales price per unit after quota	$15 for transport per/mo.	Health, sick, vacation	20% Marketing Manager salary spread over 5 sales staff - $55
Luc Dominique Trainee	$80/mo.	15% of sales price per unit $800 for targets (per/mo. quota)	None Bonuses to trainer	$15 for transport	No benefits until post-trainee status	Same (above) Trainer $55

Marketing manager, sales staff, PO business advisor, business manager, external marketing/sales consultant (if desired)

SALES STRATEGY

The sales strategy explains the mechanics of the sales approach your social enterprise will employ to realize its targets.

Developing a Sales Strategy

Use the following questions as a guide to craft your sales strategy:

- ▲ Who identifies potential new customers?
- ▲ Who makes the initial customer contact?
- ▲ What are the follow-up procedures after the first customer contact?
- ▲ Are incentives, bonuses, or rewards given for new-customer acquisition?
- ▲ How is customer contact made—in person, by phone, by mail?
- ▲ At what point does the sales staff decide to stop pursuing a lead?
- ▲ How frequently are existing customers contacted? Are they contacted for additional, add-on, or new-product sales?
- ▲ What kind of customer service or terms do you provide to ensure repeat patronage (credit, returns, etc.)?

▲ To what extent do sales personnel participate in "personal selling" (a marketing tactic), such as taste tests, or marketing events, such as trade shows?

▲ Summarize sales strategy.

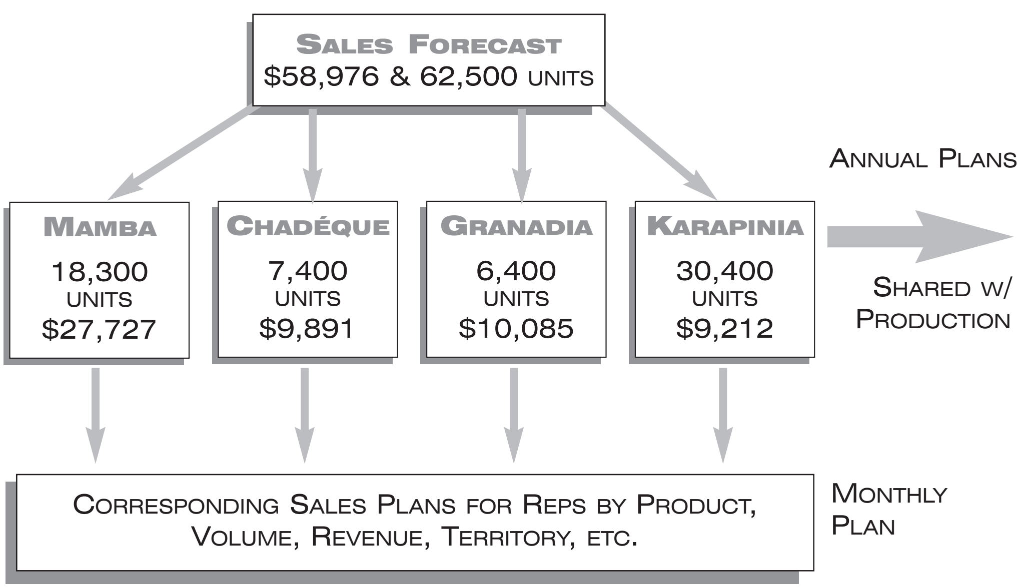
Narrative summary included in the Business Plan.

The Sales Plan

The sales plan aligns quantitative targets with the sales forecasts in marketing objectives (exhibit DD: Information Flows for Sales Planning). Annual sales plans are segmented by product and broken down into monthly or quarterly figures (exhibit 5EE: Annual Sales Plan for Mamba). Subsequently, monthly sales projections are made for individual sales representatives. Setting targets and accomplishing them are a function of your sales structure and strategy. The sales plan requires giving thought to the division of sales territory; time for sales calls, new-customer acquisition, and servicing products; number of personnel; and seasonality of business cycles (chapter 6) and capabilities of individual sales agents.

Targets for individual sales reps are delineated for a certain time period by product, revenue, volume, customers, or a combination thereof. The sales plan example in exhibit 5FF shows monthly sales objectives for Sales Agent Martine Du Pré. There is also a column for units sold. Comparing actual sales performance with projected targets helps managers project future sales more accurately and determine if sales personnel are performing as expected. This example divides sales targets equally between the five TARTINA sales reps (320 x 5 = 1,600) for the month of December 2000. This plan is probably not realistic because it does not account for lower sales productivity of trainees like Luc Dominique or dense territories like Port-au-Prince, which will yield a higher sales volume than secondary markets.

Exhibit 5DD: Information Flows for Sales Planning



This diagram illustrates the steps involved in sales planning and shows that sales information is shared with production or operations.

PO business advisor, production manager, marketing manager, sales staff, business manager

Establishing Sales Targets

- ▲ Develop an annual sales plan for each product.
- ▲ Locate blank **Sales Plan Worksheet** located in *The Workbook* or create your own.
- ▲ Prepare monthly sales plans for each sales representative that are linked to annual sale targets (if you have a sales force).
- ▲ If you are using another structure to sell your products or services, show how you will achieve sales targets using that structure in a written monthly or quarterly plan.
- ▲ Use TARTINA examples for inspiration or assistance.

<u>Sales targets are included in the Business Plan.</u>

EXHIBIT 5EE: ANNUAL SALES PLAN

PRODUCT: MAMBA

MONTH	QUANTITY	UNIT PRICE	LOCAL CURRENCY	U.S. $
Apr-99	1,200	25	30,000	1,818
May-99	1,200	25	30,000	1,818
Jun-99	1,050	25	26,250	1,591
Jul-99	1,050	25	26,250	1,591
Aug-99	1,100	25	27,500	1,667
Sep-99	1,250	25	31,250	1,894
Oct-99	1,250	25	31,250	1,894
Nov-99	1,300	25	32,500	1,970
Dec-99	1,600	25	40,000	2,424
Jan-00	1,600	25	40,000	2,424
Feb-00	1,700	25	42,500	2,576
Mar-00	2,000	25	50,000	3,030
Apr-00	2,000	25	50,000	3,030

TOTAL	18,300		457,500	$27,727

EXHIBIT 5FF: MONTHLY SALES PLAN[3]

Market Channel Existing Customers	Customer	Product	Sales/Mo. Objective Volume	Sales/Mo. Objective Revenue*	Units Sold/Mo. (Actuals)
Supermarkets	Big Star	Mamba	150	3,750	
		Chadèque	40	1,040	
		Grenadia	75	1,950	
	Delimart	Mamba	90	2,250	
		Chadèque	40	1,040	
		Grenadia	50	1,300	
Boutiques	Starmart	Mamba	40	1,000	
		Chadèque	10	260	
		Karapinia	100	500	
Institutions	Villa Creole	Mamba	25	625	
		Karapinia	200	1,000	
New Customers	Super-Q	Mamba	15	375	
		Chadèque	10	260	
	Minimart	Grenadia	25	650	
		Karapinia	100	500	
Total Sales Objective for the Month		Mamba	320	**Revenue:**	**Total Revenue Realized:**
		Chadèque	110		
		Grenadia	150		
		Karapinia	400		
				16,490= $1,000	

*Sales projections given in gourdes.

Explanation:
Sales plan shows sales targets by product and customer for Sales Agent, Martine Du Pré. The last column, Units Sold Monthly, are the actual amount of products she sold at the end of the month. These actuals are reconciled with projected targets to monitor agents' performance and the market.

[3]Template prepared by Kellogg Corps Consultants, J.L. Kellogg Graduate School of Management, Aug. 5, 1998.