

Appendix 1

MARKETING PLAN

The Marketing Plan: An Introduction

As a marketer, you'll need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products. Nonprofit organizations also use marketing plans to guide their fundraising and outreach efforts. Even government agencies put together marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

The Purpose and Content of a Marketing Plan

Unlike a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation, a marketing plan has a more limited scope. It serves to document how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments within the organization. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, the finance department must have funding available to cover the expenses, the human resources department must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Although the exact length and layout will vary from company to company, a marketing plan usually contains the sections described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plan on an internal Web site, which allows managers and employees in different locations to consult specific sections and collaborate on additions or changes.

The Role of Research

Marketing plans are not created in a vacuum. To develop successful strategies and action programs, marketers need up-to-date information about the environment, the competition, and the market segments to be served. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, and threats and opportunities issues. As the plan is put into effect, marketers use a variety of research techniques to measure progress toward objectives and identify areas for improvement if results fall short of projections. Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, and satisfaction levels. This deeper understanding provides a foundation for building competitive advantage through well-informed segmenting, targeting, and positioning decisions. Thus, the marketing plan should outline what marketing research will be conducted and how the findings will be applied.

The Role of Relationships

The marketing plan shows how the company will establish and maintain profitable customer relationships. In the process, however, it also shapes a number of internal and external relationships. First, it affects how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and strategic alliance partners to achieve the objectives listed in the plan. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All of these relationships are important to the organization's success, so they should be considered when a marketing plan is being developed.

From Marketing Plan to Marketing Action

Companies generally create yearly marketing plans, although some plans cover a longer period. Marketers start planning well in advance of the implementation date to allow time for marketing research, thorough analysis, management review, and coordination between departments. Then, after each action program begins, marketers monitor ongoing results, compare them with projections, analyze any differences, and take corrective steps as needed. Some marketers also prepare contingency plans for implementation if certain conditions emerge. Because of inevitable and sometimes unpredictable environmental changes, marketers must be ready to update and adapt marketing plans at any time.

For effective implementation and control, the marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and performance standards for monitoring and evaluating results. With budgets, they can compare planned expenditures with actual expenditures for a given week, month, or other period. Schedules allow management to see when tasks were supposed to be completed—and when they were actually completed. Performance standards track the outcomes of marketing programs to see whether the company is moving forward toward its objectives. Some examples of performance standards are: market share, sales volume, product profitability, and customer satisfaction.

Sample Marketing Plan for Sonic

This section takes you inside the sample marketing plan for Sonic, a hypothetical start-up company. The company's first product is the Sonic 1000, a multimedia personal digital assistant (PDA), also known as a handheld computer. Sonic will be competing with Palm, Hewlett-Packard, and other well-established PDA rivals in a crowded, fast-changing marketplace where enhanced cell phones and many other electronics devices have PDA functionality. The annotations explain more about what each section of the plan should contain and why.

Executive summary

This section summarizes the main goals, recommendations, and points as an overview for senior managers who must read and approve the marketing plan. Generally, a table of contents follows this section for management convenience.

Current marketing situation

In this section, marketing managers discuss the overall market, identify the market segments they will target, and provide information about the company's current situation.

Executive Summary

Sonic is preparing to launch a new multimedia PDA product, the Sonic 1000, in a maturing market. Despite the dominance of PDA leader Palm, we can compete because our product offers a unique combination of features at a value-added price. We are targeting specific segments in the consumer and business markets, taking advantage of opportunities indicated by higher demand for easy-to-use PDAs with expanded communications, entertainment, and storage functionality.

The primary marketing objective is to achieve first-year U.S. market share of 3 percent with unit sales of 240,000. The primary financial objectives are to achieve first-year sales revenues of \$60 million, keep first-year losses to less than \$10 million, and break even early in the second year.

Current Marketing Situation

Sonic, founded 18 months ago by two entrepreneurs with experience in the PC market, is about to enter the now-mature PDA market. Multifunction cell phones, e-mail devices, and wireless communication devices are increasingly popular today; forecasts suggest that annual

sales of such devices will grow at more than 50 percent for the next three years. Competition is therefore more intense even as PDA demand flattens, industry consolidation continues, and pricing pressures squeeze profitability. Yet the worldwide PDA market remains substantial, with annual sales of 10 to 15 million units. To gain market share in this dynamic environment, Sonic must carefully target specific segments with features that deliver benefits valued by each customer group.

Market description

By describing the targeted segments in detail, marketers provide context for the marketing strategies and detailed action programs discussed later in the plan.

Benefits and product features

Exhibit 1 clarifies the benefits that product features will deliver to satisfy the needs of customers in each targeted segment.

Product review

The product review should summarize the main features for all of the company's products. The information may be organized by product line, by type of customer, by market, or (as here) by order of product introduction.

Market Description

Sonic's market consists of consumers and business users who prefer to use a single device for communication, information storage and exchange, and entertainment on the go. Specific segments being targeted during the first year include professionals, corporations, students, entrepreneurs, and medical users. Table A1.1 shows how the Sonic 1000 addresses the needs of targeted consumer and business segments.

PDA purchasers can choose between models based on several different operating systems, including systems from Palm, Microsoft, and Symbian, plus Linux variations. Sonic licenses a Linux-based system because it is somewhat less vulnerable to attack by hackers and viruses. With hard drives becoming commonplace in the PDA market, Sonic is equipping its first product with an ultrafast one-gigabyte hard drive for information and entertainment storage. Technology costs are decreasing even as capabilities are increasing, which makes value-priced models more appealing to consumers and to customers with older PDAs who want to trade up to newer, high-end multifunction units.

Product Review

Our first product, the Sonic PDA 1000, offers the following standard features with a Linux OS:

- Voice recognition for hands-free operation
- Built-in cell phone functionality and push-to-talk instant calling
- Digital music/video recording, downloading, and playback
- Wireless Web and e-mail, text messaging, instant messaging

TABLE A1.1 Needs and Corresponding Features/Benefits of Sonic PDA

<i>Targeted Segment</i>	<i>Customer Need</i>	<i>Corresponding Feature/Benefit</i>
Professionals (consumer market)	<ul style="list-style-type: none"> • Stay in touch conveniently and securely while on the go 	<ul style="list-style-type: none"> • Built-in cell phone and push-to-talk to communicate anywhere at any time; wireless e-mail/Web access from anywhere; Linux-based operating system less vulnerable to hackers
Students (consumer market)	<ul style="list-style-type: none"> • Perform many functions hands-free without carrying multiple gadgets • Perform many functions hands-free without carrying multiple gadgets • Express style and individuality 	<ul style="list-style-type: none"> • Voice-activated applications are convenient; GPS function, camera add value • Compatible with numerous applications and peripherals for convenient, cost-effective note taking and functionality • Wardrobe of PDA cases in different colors, patterns, and materials
Corporate users (business market)	<ul style="list-style-type: none"> • Security and adaptability for proprietary tasks • Obtain driving directions to business meetings 	<ul style="list-style-type: none"> • Customizable to fit corporate tasks and networks; Linux-based operating system less vulnerable to hackers • Built-in GPS allows voice-activated access to directions and maps
Entrepreneurs (business market)	<ul style="list-style-type: none"> • Organize and access contacts, schedule details, business and financial files • Get in touch fast 	<ul style="list-style-type: none"> • No-hands, wireless access to calendar, address book, information files for checking appointments and data, connecting with contacts • Push-to-talk instant calling speeds up communications
Medical users (business market)	<ul style="list-style-type: none"> • Update, access, and exchange medical records • Photograph medical situations to maintain a visual record 	<ul style="list-style-type: none"> • No-hands, wireless recording and exchange of information to reduce paperwork and increase productivity • Built-in camera allows fast and easy photography, stores images for later retrieval

- Organization functions, including calendar, address book, synchronization
- Global positioning system for directions and maps
- Connectors for multiple peripherals and applications
- One-gigabyte hard drive with expansion potential
- Interchangeable case wardrobe of different colors and patterns

First-year sales revenues are projected to be \$60 million, based on sales of 240,000 Sonic 1000 units at a wholesale price of \$250 each. During the second year, we plan to introduce the Sonic 2000, also with Linux OS, as a higher-end product offering the following standard features:

- Global phone and messaging compatibility
- Translation capabilities to send English text as Spanish text (other languages to be offered as add-on options)
- Integrated six-megapixel camera

Competitive review

The purpose of a competitive review is to identify key competitors, describe their market positions, and briefly discuss their strategies.

Competitive Review

The emergence of new multifunction phones, marketed by cell phone manufacturers and carriers, has pressured industry participants to continually add features and cut prices. Competition from specialized devices for text and e-mail messaging, such as BlackBerry devices, is a major factor as well. Key competitors include:

- *Palm.* The trendy Treo PDA-phone combos account for more than half of Palm's \$1.6 billion in annual revenues. As the best-known maker of PDAs, Palm has achieved excellent distribution in multiple channels and has alliances with a number of cell phone service carriers in the United States and Europe. Its latest models are available with either the Palm or the Windows operating system.
- *Hewlett-Packard.* HP is targeting business markets with its iPAQ Pocket PC devices, many with wireless capabilities to accommodate corporate users. For extra security, one model allows access by fingerprint match as well as by password. HP enjoys excellent distribution, and its products are priced from below \$300 to more than \$600.
- *Samsung.* Many of this manufacturer's products combine cell phone capabilities with multifunction PDA features. Its i730, a smartphone based on the Windows operating system, provides wireless Web access and MP3 streaming and downloads, plays videos, and offers PDA functions such as address book, calendar, and speed dial.
- *RIM.* Research in Motion makes the lightweight BlackBerry wireless phone/PDA products that are popular among corporate users. Although legal entanglements have slightly slowed market-share momentum, RIM's continuous innovation and solid customer service support clearly strengthen its competitive standing.
- *Siemens.* This company's latest PDA-phone combinations have several distinctive features. For example, some models dial any phone number that the user writes on the screen with a stylus. Also, on some models, the keyboard slides out of the way when not in use. Siemens is a particularly formidable competitor in European markets.

Despite this strong competition, Sonic can carve out a definite image and gain recognition among the targeted segments. Our voice-recognition system for hands-off operation is a critical point of differentiation for competitive advantage. Also, offering GPS as a standard feature gives our product a competitive edge compared with PDAs in the same general price range. Moreover, our product runs the Linux OS, which is an appealing alternative for customers concerned about security. Table A1.2 shows a selection of competitive PDA products and prices.

Distribution review

In this section, marketers list the most important channels, provide an overview of each channel arrangement, and mention any new developments or trends.

Distribution Review

Sonic-branded products will be distributed through a network of retailers in the top 50 U.S. markets. Among the most important channel partners being contacted are:

- *Office supply superstores.* Office Max and Staples will both carry Sonic products in stores, in catalogs, and online.

TABLE A1.2
Selected PDA Products
and Pricing

Competitor	Model	Features	Price
Palm	Treo 700	PDA functions, camera and phone, streaming audio/video, music downloads, Bluetooth connection, high-resolution screen, model P runs Palm OS, model W runs Windows	\$349.99
Hewlett-Packard	iPAQ hw6500	PDA functions, backlit keyboard, Bluetooth connection, GPS included, built-in camera, memory slot, wireless radio and messaging capabilities, Windows OS	\$549
Samsung	i730 PDA phone	PDA functions, built-in cell phone, Wi-Fi Web access, Bluetooth connection, slide-out keyboard, voice dialing, music streaming and downloads, video playback, Windows OS	\$299.99
RIM	BlackBerry 8700c	PDA functions, wireless e-mail and phone functions, multimedia messaging, Bluetooth connection, ergonomic keyboard, light-sensing screen, lightweight (4.7 ounces)	\$299.99
Siemens	SX66	PDA functions, Wi-Fi and phone functions, handwriting-recognition dialing, slide-out keyboard, Bluetooth connection, Windows OS, relatively heavy (7.4 ounces)	\$499.99

- *Computer stores.* CompUSA will carry Sonic products.
- *Electronics specialty stores.* Circuit City and Best Buy will carry Sonic PDAs.
- *Online retailers.* Amazon.com will carry Sonic PDAs and, for a promotional fee, will give Sonic prominent placement on its home page during the introduction.

Although distribution will initially be restricted to the United States, we plan to expand into Canada and beyond, according to demand. We will emphasize trade sales promotion in the first year.

Strengths, Weaknesses, Opportunities, and Threat Analysis

Sonic has several powerful strengths on which to build, but our major weakness is lack of brand awareness and image. The major opportunity is demand for multimedia PDAs that deliver a number of valued benefits, eliminating the need for customers to carry more than one device. We also face the threat of ever-higher competition from consumer electronics manufacturers, as well as downward pricing pressure. Table A1.3 summarizes Sonic's main strengths, weaknesses, opportunities, and threats.

TABLE A1.3
Sonic's Strengths,
Weaknesses, Opportunities,
and Threats

<p>Strengths</p> <ul style="list-style-type: none"> ■ Innovative combination of functions operated hands-free in one portable device ■ Value pricing ■ Security due to Linux-based operating system 	<p>Weaknesses</p> <ul style="list-style-type: none"> ■ Lack of brand awareness and image ■ Heavier than most competing models
<p>Opportunities</p> <ul style="list-style-type: none"> ■ Increased demand for multimedia models with diverse functions and benefits ■ Lower technology costs 	<p>Threats</p> <ul style="list-style-type: none"> ■ Intense competition ■ Downward pricing pressure ■ Compressed product life

Strengths

Strengths are internal capabilities that can help the company reach its objectives.

Weaknesses

Weaknesses are internal elements that may interfere with the company's ability to achieve its objectives.

Opportunities

Opportunities are external elements that the company may be able to exploit to its advantage.

Threats

Threats are current or emerging external elements that may possibly challenge the company's performance.

Objectives and issues

The company's objectives should be defined in specific terms so management can measure progress and, if needed, take corrective action to stay on track. This section describes any major issues that might affect the company's marketing strategy and implementation.

Strengths

Sonic can build on three important strengths:

1. *Innovative product.* The Sonic 1000 combines a variety of features that would otherwise require customers to carry multiple devices; these include cell phone and wireless e-mail functionality, GPS capability, and digital video/music storage and playback—all with hands-free operation.
2. *Security.* Our PDA uses a Linux-based operating system that is less vulnerable to hackers and other security threats that can result in stolen or corrupted data.
3. *Pricing.* Our product is priced lower than competing multifunction models—none of which offer the same bundle of features—which gives us an edge with price-conscious customers.

Weaknesses

By waiting to enter the PDA market until considerable consolidation of competitors has occurred, Sonic has learned from the successes and mistakes of others. Nonetheless, we have two main weaknesses:

1. *Lack of brand awareness.* Sonic has not yet established a brand or image in the marketplace, whereas Palm and others have strong brand recognition. We will address this area with promotion.
2. *Heavier weight.* The Sonic 1000 is slightly heavier than most competing models because it incorporates multiple features and a sizable hard drive. To counteract this weakness, we will emphasize our unique combination of features and our value-added pricing, two compelling competitive strengths.

Opportunities

Sonic can take advantage of two major market opportunities:

1. *Increasing demand for multimedia models with multiple functions.* The market for multimedia, multifunction devices is growing much faster than the market for single-use devices. Customers are now accustomed to seeing users with PDAs in work and educational settings, which is boosting primary demand. Also, customers who bought entry-level models are replacing older models with more-advanced models.
2. *Lower technology costs.* Better technology is now available at a lower cost than ever before. Thus, Sonic can incorporate technically advanced features at a value-added price that allows for reasonable profits.

Threats

We face three main threats at the introduction of the Sonic 1000:

1. *Increased competition.* More companies are entering the U.S. PDA market with models that offer some but not all of the features and benefits provided by Sonic's PDA. Therefore, Sonic's marketing communications must stress our clear differentiation and value-added pricing.
2. *Downward pressure on pricing.* Increased competition and market-share strategies are pushing PDA prices down. Still, our objective of seeking a 10 percent profit on second-year sales of the original model is realistic, given the lower margins in the PDA market.
3. *Compressed product life cycle.* PDAs have reached the maturity stage of their life cycle more quickly than earlier technology products. We have contingency plans to keep sales growing by adding new features, targeting additional segments, and adjusting prices.

Objectives and Issues

We have set aggressive but achievable objectives for the first and second years of market entry.

First-year Objectives

During the Sonic 1000's initial year on the market, we are aiming for a 3 percent share of the U.S. PDA market through unit sales volume of 240,000.

Second-year Objectives

Our second-year objectives are to achieve a 6 percent share based on sales of two models and to achieve break-even early in this period.

Issues

In relation to the product launch, our major issue is the ability to establish a well-regarded brand name linked to a meaningful positioning. We must invest heavily in marketing to create a memorable and distinctive brand image projecting innovation, quality, and value. We also must measure awareness and response so we can adjust our marketing efforts as necessary.

Marketing Strategy

Sonic's marketing strategy is based on a positioning of product differentiation. Our primary consumer target is middle- to upper-income professionals who need one portable device to coordinate their busy schedules, communicate with family and colleagues, get driving directions, and be entertained on the go. Our secondary consumer target is high school, college, and graduate students who want a multimedia device. This segment can be described demographically by age (16–30) and education status.

Our primary business target is mid- to large-sized corporations that want to help their managers and employees stay in touch and input or access critical data when out of the office. This segment consists of companies with more than \$25 million in annual sales and more than 100 employees. A secondary business target is entrepreneurs and small-business owners. We are also targeting medical users who want to reduce paperwork and update or access patients' medical records.

Positioning

A positioning built on meaningful differences, supported by appropriate strategy and implementation, can help the company build competitive advantage.

Marketing tools

These sections summarize the broad logic that will guide decisions made about the marketing tools to be used in the period covered by the plan.

Positioning

Using product differentiation, we are positioning the Sonic PDA as the most versatile, convenient, value-added model for personal and professional use. The marketing strategy will focus on the hand-free operation of multiple communication, entertainment, and information capabilities differentiating the Sonic 1000.

Product Strategy

The Sonic 1000, including all the features described in the earlier Product Review section, will be sold with a one-year warranty. We will introduce a more compact, powerful high-end model (the Sonic 2000) during the following year. Building the Sonic brand is an integral part of our product strategy. The brand and logo (Sonic's distinctive yellow thunderbolt) will be displayed on the product and its packaging and reinforced by its prominence in the introductory marketing campaign.

Pricing Strategy

The Sonic 1000 will be introduced at \$250 wholesale/\$350 estimated retail price per unit. We expect to lower the price of this first model when we expand the product line by launching the Sonic 2000, to be priced at \$350 wholesale per unit. These prices reflect a strategy of (1) attracting desirable channel partners and (2) taking share from Palm and other established competitors.

Distribution Strategy

Our channel strategy is to use selective distribution, marketing Sonic PDAs through well-known stores and online retailers. During the first year, we will add channel partners until we have coverage in all major U.S. markets and the product is included in the major electronics catalogs and Web sites. We will also investigate distribution through cell-phone outlets maintained by major carriers such as Cingular Wireless. In support of our channel partners, Sonic will provide demonstration products, detailed specification handouts, and full-color photos and displays featuring the product. We will also arrange special trade terms for retailers that place volume orders.

Marketing Communications Strategy

By integrating all messages in all media, we will reinforce the brand name and the main points of product differentiation. Research about media consumption patterns will help our advertising agency choose appropriate media and timing to reach prospects before and during product introduction. Thereafter, advertising will appear on a pulsing basis to maintain brand awareness and communicate various differentiation messages. The agency will also coordinate public relations efforts to build the Sonic brand and support the differentiation message. To attract customer attention and encourage purchasing, we will offer as a limited-time premium a leather carry-case. To attract, retain, and motivate channel partners for a push strategy, we will use trade sales promotions and personal selling. Until the Sonic brand has been established, our communications will encourage purchases through channel partners rather than from our Web site.

Marketing research

Management should explain in this section how marketing research will be used to support development, implementation, and evaluation of strategies and action programs.

Marketing organization

The marketing department may be organized by function, as in this sample, by geography, by product, or by customer (or some combination).

Action programs

Action programs should be coordinated with the resources and activities of other departments, including production, finance, purchasing, etc.

Marketing Research

Using research, we are identifying the specific features and benefits that our target market segments value. Feedback from market tests, surveys, and focus groups will help us develop the Sonic 2000. We are also measuring and analyzing customers' attitudes toward competing brands and products. Brand awareness research will help us determine the effectiveness and efficiency of our messages and media. Finally, we will use customer satisfaction studies to gauge market reaction.

Marketing Organization

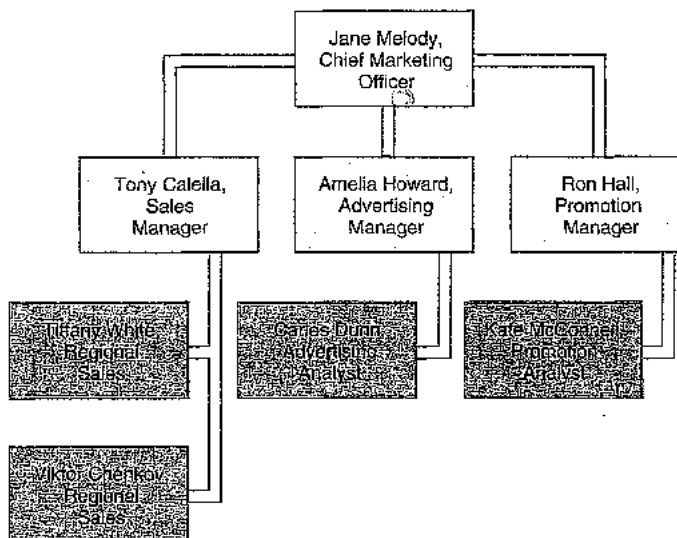
Sonic's chief marketing officer, Jane Melody, holds overall responsibility for all of the company's marketing activities. Figure A1.1 shows the structure of the eight-person marketing organization. Sonic has hired Worldwide Marketing to handle national sales campaigns, trade and consumer sales promotions, and public relations efforts.

Action Programs

The Sonic 1000 will be introduced in February. Following are summaries of the action programs we will use during the first six months of next year to achieve our stated objectives.

January We will initiate a \$200,000 trade sales promotion campaign to educate dealers and generate excitement for the product launch in February. We will exhibit at the major consumer electronics trade shows, Webcast the product launch, and provide samples to selected product reviewers, opinion leaders, and celebrities as part of our public relations strategy. Our training staff will work with sales personnel at major retail chains to explain the Sonic 1000's features, benefits, and competitive advantages.

FIGURE A1.1
Sonic's marketing organization



February We will start an integrated print/radio/Internet campaign targeting professionals and consumers. The campaign will show how many functions the Sonic PDA can perform and emphasize the convenience of a single, powerful handheld device. This multimedia campaign will be supported by point-of-sale signage as well as online-only specials.

March As the multimedia advertising campaign continues, we will add consumer sales promotion tactics such as giving away leather carry-cases as a premium. We will also distribute new point-of-purchase displays to support our retailers.

April We will hold a trade sales contest offering prizes for the salesperson and retail organization that sells the most Sonic PDAs during the four-week period.

May We plan to roll out a new national advertising campaign this month. The radio ads will feature celebrity voices telling their Sonic PDAs to perform functions such as initiating a phone call, sending an e-mail, playing a song or video, and so on. The print ads will show these celebrities holding their Sonic PDAs.

June Our radio campaign will add a new voice-over tag line promoting the Sonic 1000 as a graduation gift. We will also exhibit at the semiannual electronics trade show and provide channel partners with new competitive comparison handouts as a sales aid. In addition, we will tally and analyze the results of customer satisfaction surveys for use in future promotions and to provide feedback for product and marketing activities.

Budgets

Budgets serve two main purposes: to project profitability and to help managers plan for expenditures, scheduling, and operations related to each action program.

Budgets

Total first-year sales revenue for the Sonic 1000 is projected at \$60 million, with an average wholesale price of \$250 per unit and variable cost per unit of \$150 for unit sales volume of 240,000. We anticipate a first-year loss of up to \$10 million on the Sonic 1000 model. Break-even calculations indicate that the Sonic 1000 will become profitable after the sales volume exceeds 267,500, early in the product's second year. Our break-even analysis of Sonic's first PDA product assumes per-unit wholesale revenue of \$250 per unit, variable cost of \$150 per unit, and estimated first-year fixed costs of \$26,750,000. Based on these assumptions, the break-even calculation is:

$$\frac{26,750,000}{\$250 - \$150} = 267,500 \text{ units}$$

Controls

Controls help management assess results after the plan is implemented, identify any problems or performance variations, and initiate corrective action.

Controls

We are planning tight control measures to closely monitor quality and customer service satisfaction. This will enable us to react quickly in correcting any problems that may occur. Other early warning signals that will be monitored for signs of deviation from the plan include monthly sales (by segment and channel) and monthly expenses. Given the PDA market's volatility, we are developing contingency plans to address fast-moving environmental changes such as new technology and new competition.

Marketing Plan Tools

Prentice Hall offers two valuable resources to assist you in developing a marketing plan:

- *The Marketing Plan Handbook* by Marian Burk Wood explains the process of creating a marketing plan, complete with detailed checklists and dozens of real-world examples.
- *Marketing Plan Pro* is an award-winning software package that includes sample plans, step-by-step guides, an introductory video, help wizards, and customizable charts for documenting a marketing plan.

Sources: Background information and market data adapted from "Palm 'Hiccup' Highlights EU Enviro Regulations," *RCR Wireless News*, July 10, 2006, p. 6; Arik Hesselcahl, "The Swarm of Killer PDAs," *BusinessWeek*, May 15, 2006, p. 100; Pui-Wing Tam, "The Hand-Helds Strike Back," *Wall Street Journal*, May 18, 2005, pp. D1, D6; Michael V. Copeland, Om Malik, and Rafe Needleman, "The Next Big Thing," *Business 2.0*, July 2003, pp. 62–69; "2005 PDA Shipments Set Record," *Business Communications Review*, April 2006, p. 6; "Smartphone Market Grows Fast Despite Challenges," *Appliance*, March 2006, p. 16; and Sean Ginevan, "A New PDA Is Born," *Network Computing*, July 6, 2006, p. 19.

Appendix 2

MARKETING BY THE NUMBERS

Marketing decisions are coming under increasing scrutiny, and marketing managers must be accountable for the financial implications of their actions. This appendix provides a basic introduction to marketing financial analysis. Such analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of high-definition consumer electronics products—HDX-treme. This company is launching a new product, and we will discuss and analyze the various decisions HDX-treme's marketing managers must make before and after launch.

HDX-treme manufactures high-definition televisions for the consumer market. The company has concentrated on televisions but is now entering the accessories market. Specifically, the company is introducing a high-definition optical disc player (DVD) using the Blu-ray format.

The appendix is organized into three sections. The first section deals with the pricing considerations and break-even and margin analysis assessments that guide the introduction of HDX-treme's new-product launch. The second section begins with a discussion of estimating market potential and company sales. It then introduces the marketing budget, as illustrated through a pro forma profit-and-loss statement followed by the actual profit-and-loss statement. Next, the section discusses marketing performance measures, with a focus on helping marketing managers to better defend their decisions from a financial perspective. In the final section, we analyze the financial implications of various marketing tactics, such as increasing advertising expenditures, adding sales representatives to increase distribution, lowering price, or extending the product line.

At the end of each section, quantitative exercises provide you with an opportunity to apply the concepts you learned in that section to contexts beyond HDX-treme.

■ Pricing, Break-Even, and Margin Analysis

Pricing Considerations

Determining price is one of the most important marketing-mix decisions, and marketers have considerable leeway when setting prices. The limiting factors are demand and costs. Demand factors, such as buyer-perceived value, set the price ceiling. The company's costs set the price floor. In between these two factors, marketers must consider competitors' prices and other factors such as reseller requirements, government regulations, and company objectives.

Current competing high-definition DVD products in this relatively new product category were introduced in 2006 and sell at retail prices between \$500 and \$1,200. HDX-treme plans to introduce its new product at a lower price in order to expand the market and to gain market share rapidly. We first consider HDX-treme's pricing decision from a cost perspective. Then, we consider consumer value, the competitive environment, and reseller requirements.

Determining Costs

Fixed costs

Costs that do not vary with production or sales level.

Recall from Chapter 10 that there are different types of costs. **Fixed costs** do not vary with production or sales level and include costs such as rent, interest, depreciation, and clerical and management salaries. Regardless of the level of output, the company must pay these costs. Whereas total fixed costs remain constant as output increases, the fixed cost per unit (or average fixed cost) will decrease as output increases because the total fixed costs are spread across

Variable costs

Costs that vary directly with the level of production.

Total costs

The sum of the fixed and variable costs for any given level of production.

Cost-plus pricing (or markup pricing)

Adding a standard markup to the cost of the product.

Relevant costs

Costs that will occur in the future and that will vary across the alternatives being considered.

Break-even price

The price at which total revenue equals total cost and profit is zero.

Return on investment (ROI) pricing (or target-return pricing)

A cost-based pricing method that determines price based on a specified rate of return on investment.

more units of output. **Variable costs** vary directly with the level of production and include costs related to the direct production of the product (such as costs of goods sold--COGS) and many of the marketing costs associated with selling it. Although these costs tend to be uniform for each unit produced, they are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production.

HDX-treme has invested \$10 million in refurbishing an existing facility to manufacture the new DVD product. Once production begins, the company estimates that it will incur fixed costs of \$20 million per year. The variable cost to produce each DVD player is estimated to be \$250 and is expected to remain at that level for the output capacity of the facility.

Setting Price Based on Costs

HDX-treme starts with the cost-based approach to pricing discussed in Chapter 10. Recall that the simplest method, **cost-plus pricing (or markup pricing)**, simply adds a standard markup to the cost of the product. To use this method, however, HDX-treme must specify an expected unit sales so that total unit costs can be determined. Unit variable costs will remain constant regardless of the output, but *average unit fixed costs* will decrease as output increases.

To illustrate this method, suppose HDX-treme has fixed costs of \$20 million, variable costs of \$250 per unit, and expects unit sales of 1 million units. Thus, the cost per DVD player is given by:

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed costs}}{\text{unit sales}} = \$250 + \frac{\$20,000,000}{1,000,000} = \$270$$

Note that we do *not* include the initial investment of \$10 million in the total fixed cost figure. It is not considered a fixed cost because it is not a *relevant cost*. **Relevant costs** are those that will occur in the future and that will vary across the alternatives being considered. HDX-treme's investment to refurbish the manufacturing facility was a one-time cost that will not reoccur in the future. Such past costs are *sunk costs* and should not be considered in future analyses.

Also notice that if HDX-treme sells its DVD player for \$270, the price is equal to the total cost per unit. This is the **break even price**—the price at which unit revenue (price) equals unit cost and profit is zero.

Suppose HDX-treme does not want to merely break even but rather wants to earn a 25% markup on sales. HDX-treme's markup price is:¹

$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$270}{1 - .25} = \$360$$

This is the price that HDX-treme would sell the DVD player to resellers such as wholesalers or retailers to earn a 25% profit on sales.

Another approach HDX-treme could use is called **return on investment (ROI) pricing (or target-return pricing)**. In this case, the company *would* consider the initial \$10 million investment, but only to determine the dollar profit goal. Suppose the company wants a 30% return on its investment. The price necessary to satisfy this requirement can be determined by:²

$$\text{ROI price} = \text{unit cost} + \frac{\text{ROI} \times \text{investment}}{\text{unit sales}} = \$270 + \frac{0.3 \times \$10,000,000}{1,000,000} = \$273$$

That is, if HDX-treme sells its DVD players for \$273 each, it will realize a 30% return on its initial investment of \$10 million.

In these pricing calculations, unit cost is a function of the expected sales, which were estimated to be 1 million units. But what if actual sales were lower? Then the unit cost would be higher because the fixed costs would be spread over fewer units, and the realized percentage markup on sales or ROI would be lower. Alternatively, if sales are higher than the estimated 1 million units, unit cost would be lower than \$270, so a lower price would produce the desired markup on sales or ROI. It's important to note that these cost-based pricing methods are *internally* focused and do not consider demand, competitors' prices, or reseller requirements. Because HDX-treme will be selling these DVD players to consumers through wholesalers and retailers offering competing brands, the company must consider markup pricing from this perspective.

Setting Price Based on External Factors

Whereas costs determine the price floor, HDX-treme also must consider external factors when setting price. HDX-treme does not have the final say concerning the final price to consumers—retailers do. So it must start with its suggested retail price and work back. In doing so, HDX-treme must consider the markups required by resellers that sell the product to consumers.

Markup

The difference between a company's selling price for a product and its cost to manufacture or purchase it.

In general, a **dollar markup** is the difference between a company's selling price for a product and its cost to manufacture or purchase it. For a retailer, then, the markup is the difference between the price it charges consumers and the cost the retailer must pay for the product. Thus, for any level of reseller:

$$\text{Dollar markup} = \text{selling price} - \text{cost}$$

Markups are usually expressed as a percentage, and there are two different ways to compute markups—on *cost* or on *selling price*:

$$\text{Markup percentage on cost} = \frac{\text{dollar markup}}{\text{cost}}$$

$$\text{Markup percentage on selling price} = \frac{\text{dollar markup}}{\text{selling price}}$$

To apply reseller margin analysis, HDX-treme must first set the suggested retail price and then work back to the price at which it must sell the DVD player to a wholesaler. Suppose retailers expect a 30% margin and wholesalers want a 20% margin based on their respective selling prices. And suppose that HDX-treme sets a manufacturer's suggested retail price (MSRP) of \$599.99 for its high-definition DVD player.

Value-based pricing

Offering just the right combination of quality and good service at a fair price.

Recall that HDX-treme wants to expand the market by pricing low and generating market share quickly. HDX-treme selected the \$599.99 MSRP because it is much lower than most competitors' prices, which can be as high as \$1,200. And the company's research shows that it is below the threshold at which more consumers are willing to purchase the product. By using buyers' perceptions of value and not the seller's cost to determine the MSRP, HDX-treme is using **value-based pricing**. For simplicity, we will use an MSRP of \$600 in further analyses.

Markup chain

The sequence of markups used by firms at each level in a channel.

To determine the price HDX-treme will charge wholesalers, we must first subtract the retailer's margin from the retail price to determine the retailer's cost (\$600 - (\$600 × 0.30) = \$420). The retailer's cost is the wholesaler's price, so HDX-treme next subtracts the wholesaler's margin (\$420 - (\$420 × 0.20) = \$336). Thus, the **markup chain** representing the sequence of markups used by firms at each level in a channel for HDX-treme's new product is:

Suggested retail price:	\$600
minus retail margin (30%):	- \$180
Retailer's cost/wholesaler's price:	\$420
minus wholesaler's margin (20%):	- \$84
Wholesaler's cost/HDX-treme's price:	\$336

By deducting the markups for each level in the markup chain, HDX-treme arrives at a price for the DVD player to wholesalers of \$336.

Break-Even and Margin Analysis

The previous analyses derived a value-based price of \$336 for HDX-treme's DVD player. Although this price is higher than the break-even price of \$270 and covers costs, that price assumed a demand of 1 million units. But how many units and what level of dollar sales must HDX-treme achieve to break even at the \$336 price? And what level of sales must be achieved to realize various profit goals? These questions can be answered through break-even and margin analysis.

Break-even analysis

Analysis to determine the unit volume and dollar sales needed to be profitable given a particular price and cost structure.

Determining Break-Even Unit Volume and Dollar Sales

Based on an understanding of costs, consumer value, the competitive environment, and reseller requirements, HDX-treme has decided to set its price to wholesalers at \$336. At that price, what sales level will be needed for HDX-treme to break even or make a profit? **Break-even analysis** determines the unit volume and dollar sales needed to be profitable given a particular price and

cost structure. At the break-even point, total revenue equals total costs and profit is zero. Above this point, the company will make a profit; below it, the company will lose money. HDX-treme can calculate break-even volume using the following formula:³

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{unit variable cost}}$$

Unit contribution

The amount that each unit contributes to covering fixed costs—the difference between price and variable costs.

The denominator (price – unit variable cost) is called **unit contribution** (sometimes called **contribution margin**). It represents the amount that each unit contributes to covering fixed costs. Break-even volume represents the level of output at which all (variable and fixed) costs are covered. In HDX-treme's case, break-even unit volume is:

$$\text{Break-even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}} = \frac{\$20,000,000}{\$336 - \$250} = 232,558.1 \text{ units}$$

Thus, at the given cost and pricing structure, HDX-treme will break even at 232,559 units.

To determine the break-even dollar sales, simply multiply unit break-even volume by the selling price:

$$\text{BE sales} = \text{BE}_{\text{vol}} \times \text{price} = 232,559 \text{ units} \times \$336 = \$78,139,824$$

Another way to calculate dollar break-even sales is to use the percentage contribution margin (hereafter referred to as **contribution margin**), which is the unit contribution divided by the selling price:

$$\text{Contribution margin} = \frac{\text{price} - \text{variable cost}}{\text{price}} = \frac{\$336 - \$250}{\$336} = 0.256 \text{ or } 25.6\%$$

Then,

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{\$20,000,000}{0.256} = \$78,125,000$$

Note that the difference between the two break-even sales calculations is due to rounding.

Such break-even analysis helps HDX-treme by showing the unit volume needed to cover costs. If production capacity cannot attain this level of output, then the company should not launch this product. However, the unit break-even volume is well within HDX-treme's capacity. Of course, the bigger question concerns whether HDX-treme can sell this volume at the \$336 price. We'll address that issue a little later.

Understanding contribution margin is useful in other types of analyses as well, particularly if unit prices and unit variable costs are unknown or if a company (say, a retailer) sells many products at different prices and knows the percentage of total sales variable costs represent. Whereas unit contribution is the difference between unit price and unit variable costs, total contribution is the difference between total sales and total variable costs. The overall contribution margin can be calculated by:

$$\text{Contribution margin} = \frac{\text{total sales} - \text{total variable costs}}{\text{total sales}}$$

Regardless of the actual level of sales, if the company knows what percentage of sales is represented by variable costs, it can calculate contribution margin. For example, HDX-treme's unit variable cost is \$250, or 74% of the selling price ($\$250 \div \$336 = 0.74$). That means for every \$1 of sales revenue for HDX-treme, \$0.74 represents variable costs, and the difference (\$0.26) represents contribution to fixed costs. But even if the company doesn't know its unit price and unit variable cost, it can calculate the contribution margin from total sales and total variable costs or from knowledge of the total cost structure. It can set total sales equal to 100% regardless of the actual absolute amount and determine the contribution margin:

$$\text{Contribution margin} = \frac{100\% - 74\%}{100\%} = \frac{1 - 0.74}{1} = 1 - 0.74 = 0.26 \text{ or } 26\%$$

Note that this matches the percentage calculated from the unit price and unit variable cost information. This alternative calculation will be very useful later when analyzing various marketing decisions.

Contribution margin

The unit contribution divided by the selling price.

Determining "Breakeven" for Profit Goals

Although it is useful to know the break-even point, most companies are more interested in making a profit. Assume HDX-treme would like to realize a \$5 million profit in the first year. How many DVD players must it sell at the \$336 price to cover fixed costs and produce this profit? To determine this, HDX-treme can simply add the profit figure to fixed costs and again divide by the unit contribution to determine unit sales:⁴

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$20,000,000 + \$5,000,000}{\$336 - \$250} = 290,697.7 \text{ units}$$

Thus, to earn a \$5 million profit, HDX-treme must sell 290,698 units. Multiply by price to determine dollar sales needed to achieve a \$5 million profit:

$$\text{Dollar sales} = 290,698 \text{ units} \times \$336 = \$97,674,528$$

Or use the contribution margin:

$$\text{Sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$20,000,000 + \$5,000,000}{0.256} = \$97,656,250$$

Again, note that the difference between the two break-even sales calculations is due to rounding.

As we saw previously, a profit goal can also be stated as a return on investment goal. For example, recall that HDX-treme wants a 30% return on its \$10 million investment. Thus, its absolute profit goal is \$3 million (\$10,000,000 × 0.30). This profit goal is treated the same way as in the previous example:⁵

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$20,000,000 + \$3,000,000}{\$336 - \$250} = 267,442 \text{ units}$$

$$\text{Dollar sales} = 267,442 \text{ units} \times \$336 = \$89,860,512$$

Or

$$\text{Dollar sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$20,000,000 + \$3,000,000}{0.256} = \$89,843,750$$

Finally, HDX-treme can express its profit goal as a percentage of sales, which we also saw in previous pricing analyses. Assume HDX-treme desires a 25% return on sales. To determine the unit and sales volume necessary to achieve this goal, the calculation is a little different from the previous two examples. In this case, we incorporate the profit goal into the unit contribution as an additional variable cost. Look at it this way: If 25% of each sale must go toward profits, that leaves only 75% of the selling price to cover fixed costs. Thus, the equation becomes:⁶

$$\text{Unit volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost} - (0.25 \times \text{price})} \text{ or } \frac{\text{fixed cost}}{(0.75 \times \text{price}) - \text{variable cost}}$$

So,

$$\text{Unit volume} = \frac{\$20,000,000}{(0.75 \times \$336) - \$250} = 10,000,000 \text{ units}$$

$$\text{Dollar sales necessary} = 10,000,000 \text{ units} \times \$336 = \$3,360,000,000$$

Thus, HDX-treme would need more than \$3 billion in sales to realize a 25% return on sales given its current price and cost structure! Could it possibly achieve this level of sales? The major point is this: Although break-even analysis can be useful in determining the level of sales needed to cover costs or to achieve a stated profit goal, it does not tell the company whether it is *possible* to achieve that level of sales at the specified price. To address this issue, HDX-treme needs to estimate demand for this product.

Before moving on, however, let's stop here and practice applying the concepts covered so far. Now that you have seen pricing and break-even concepts in action as they related to HDX-treme's new DVD player, here are several exercises for you to apply what you have learned in other contexts.

Marketing by the Numbers Exercise Set One

Now that you've studied pricing, break-even, and margin analysis as they relate to HDX-treme's new-product launch, use the following exercises to apply these concepts in other contexts.

- 1.1 Sanborn, a manufacturer of electric roof vents, realizes a cost of \$55 for every unit it produces. Its total fixed costs equal \$2 million. If the company manufactures 500,000 units, compute the following:
 - a. unit cost
 - b. markup price if the company desires a 10% return on sales
 - c. ROI price if the company desires a 25% return on an investment of \$1 million
- 1.2 An interior decorator purchases items to sell in her store. She purchases a lamp for \$125 and sells it for \$225. Determine the following:
 - a. dollar markup
 - b. markup percentage on cost
 - c. markup percentage on selling price
- 1.3 A consumer purchases a toaster from a retailer for \$60. The retailer's markup is 20%, and the wholesaler's markup is 15%, both based on selling price. For what price does the manufacturer sell the product to the wholesaler?
- 1.4 A vacuum manufacturer has a unit cost of \$50 and wishes to achieve a margin of 30% based on selling price. If the manufacturer sells directly to a retailer who then adds a set margin of 40% based on selling price, determine the retail price charged to consumers.
- 1.5 Advanced Electronics manufactures DVDs and sells them directly to retailers who typically sell them for \$20. Retailers take a 40% margin based on the retail selling price. Advanced's cost information is as follows:

DVD package and disc	\$2.50/DVD
Royalties	\$2.25/DVD
Advertising and promotion	\$500,000
Overhead	\$200,000

 Calculate the following:
 - a. contribution per unit and contribution margin
 - b. break-even volume in DVD units and dollars
 - c. volume in DVD units and dollar sales necessary if Advanced's profit goal is 20% profit on sales
 - d. net profit if 5 million DVDs are sold

■ Demand Estimates, the Marketing Budget, and Marketing Performance Measures

Market Potential and Sales Estimates

HDX-treme has now calculated the sales needed to break even and to attain various profit goals on its DVD player. However, the company needs more information regarding demand in order to assess the feasibility of attaining the needed sales levels. This information is also needed for production and other decisions. For example, production schedules need to be developed and marketing tactics need to be planned.

The **total market demand** for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort. Total market demand is not a fixed number but a function of the stated conditions. For example, next year's total market demand for high-definition DVD players will depend on how much Samsung, Sony, Pioneer, Toshiba, and other producers spend on marketing their brands. It also depends on many environmental factors, such as government regulations, economic conditions, and the level of consumer confidence in a given market. The upper limit of market demand is called **market potential**.

One general but practical method that HDX-treme might use for estimating total market demand uses three variables: (1) the number of prospective buyers, (2) the quantity purchased

Total market demand

The total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.

Market potential

The upper limit of market demand.

by an average buyer per year, and (3) the price of an average unit. Using these numbers, HDX-treme can estimate total market demand as follows:

$$Q = n \times q \times p$$

where

- Q = total market demand
- n = number of buyers in the market
- q = quantity purchased by an average buyer per year
- p = price of an average unit

Chain ratio method

Estimating market demand by multiplying a base number by a chain of adjusting percentages.

A variation of this approach is the **chain ratio method**. This method involves multiplying a base number by a chain of adjusting percentages. For example, HDX-treme's high-definition DVD player is designed to play high-definition DVD movies on high-definition televisions. Thus, consumers who do not own a high-definition television will not likely purchase this player. Additionally, not all HDTV households will be willing and able to purchase the new high-definition DVD player. HDX-treme can estimate U.S. demand using a chain of calculations like the following:

- Total number of U.S. households
- × The percentage of U.S. households owning a high-definition television
- × The percentage of these households willing and able to buy a high-definition DVD player

AC Nielsen, the television ratings company, estimates that there are more than 110 million TV households in the United States.⁷ The Consumer Electronics Association estimates that 38% of TV households will own HDTVs by the end of 2006.⁸ However, HDX-treme's research indicates that only 44.5% of HDTV households possess the discretionary income needed and are willing to buy a high-definition DVD player. Then, the total number of households willing and able to purchase this product is:

$$110 \text{ million households} \times 0.38 \times 0.445 = 18.6 \text{ million households}$$

Because HDTVs are relatively new and expensive products, most households have only one of these televisions, and it's usually the household's primary television.⁹ Thus, consumers who buy a high-definition DVD player will likely buy only one per household. Assuming the average retail price across all brands is \$750 for this product, the estimate of total market demand is as follows:

$$18.6 \text{ million households} \times 1 \text{ DVD player per household} \times \$750 = \$14 \text{ billion}$$

This simple chain of calculations gives HDX-treme only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates. Still, these are only *estimates* of market potential. They rely heavily on assumptions regarding adjusting percentages, average quantity, and average price. Thus, HDX-treme must make certain that its assumptions are reasonable and defensible. As can be seen, the overall market potential in dollar sales can vary widely given the average price used. For this reason, HDX-treme will use unit sales potential to determine its sales estimate for next year. Market potential in terms of units is 18.6 million DVD players (18.6 million households × 1 DVD player per household).

Assuming that HDX-treme wants to attain 2% market share (comparable to its share of the HDTV market) in the first year after launching this product, then it can forecast unit sales at 18.6 million units × 0.02 = 372,000 units. At a selling price of \$336 per unit, this translates into sales of \$124.99 million (372,000 units × \$336 per unit). For simplicity, further analyses will use forecasted sales of \$125 million.

This unit volume estimate is well within HDX-treme's production capacity and exceeds not only the break-even estimate (232,559 units) calculated earlier, but also the volume necessary to realize a \$5 million profit (290,698 units) or a 30% return on investment (267,442 units). However, this forecast falls well short of the volume necessary to realize a 25% return on sales (10 million units!) and may require that HDX-treme revise expectations.

To assess expected profits, we must now look at the budgeted expenses for launching this product. To do this, we will construct a pro forma profit-and-loss statement.

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement)

A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year.

The Profit-and-Loss Statement and Marketing Budget

All marketing managers must account for the profit impact of their marketing strategies. A major tool for projecting such profit impact is a **pro forma (or projected) profit-and-loss statement** (also called an **income statement** or **operating statement**). A pro forma statement shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year. It includes direct product production costs, marketing expenses budgeted to attain a given sales forecast, and overhead expenses assigned to the organization or product. A profit-and-loss statement typically consists of several major components (see Table A2.1):

- **Net sales**—gross sales revenue minus returns and allowances (for example, trade, cash, quantity, and promotion allowances). HDX-treme's net sales for 2006 are estimated to be \$125 million, as determined in the previous analysis.
- **Cost of goods sold** (sometimes called **cost of sales**)—the actual cost of the merchandise sold by a manufacturer or reseller. It includes the cost of inventory, purchases, and other costs associated with making the goods. HDX-treme's cost of goods sold is estimated to be 50% of net sales, or \$62.5 million.
- **Gross margin (or gross profit)**—the difference between net sales and cost of goods sold. HDX-treme's gross margin is estimated to be \$62.5 million.
- **Operating expenses**—the expenses incurred while doing business. These include all other expenses beyond the cost of goods sold that are necessary to conduct business. Operating expenses can be presented in total or broken down in detail. Here, HDX-treme's estimated operating expenses include **marketing expenses** and **general and administrative expenses**.

Marketing expenses include sales expenses, promotion expenses, and distribution expenses. The new product will be sold through HDX-treme's sales force, so the company budgets \$5 million for sales salaries. However, because sales representatives earn a 10% commission on sales, HDX-treme must also add a variable component to sales expenses of \$12.5 million (10% of \$125 million net sales), for a total budgeted sales expense of \$17.5 million. HDX-treme sets its advertising and promotion to launch this product at \$10 million. However, the company also budgets 4% of sales, or \$5 million, for cooperative advertising allowances to retailers who promote HDX-treme's new product in their advertising. Thus, the total budgeted advertising and promotion expenses are \$15 million (\$10 million for advertising plus \$5 million in co-op allowances). Finally, HDX-treme budgets 10% of net sales, or \$12.5 million, for freight and delivery charges. In all, total marketing expenses are estimated to be \$17.5 million + \$15 million + \$12.5 million = \$45 million.

General and administrative expenses are estimated at \$5 million, broken down into \$2 million for managerial salaries and expenses for the marketing function and \$3 million of indirect overhead allocated to this product by the corporate accountants (such as depreciation, interest, maintenance, and insurance). Total expenses for the year, then, are estimated to be \$50 million (\$45 million marketing expenses + \$5 million in general and administrative expenses).

TABLE A2.1
Pro Forma Profit-and-Loss
Statement for the 12-Month
Period Ended December 31,
2006

			% of sales
Net Sales		\$125,000,000	100%
Cost of Goods Sold		<u>62,500,000</u>	50%
Gross Margin		\$ 62,500,000	50%
Marketing Expenses			
Sales expenses	\$17,500,000		
Promotion expenses	15,000,000		
Freight	<u>12,500,000</u>	45,000,000	36%
General and Administrative Expenses			
Managerial salaries and expenses	\$2,000,000		
Indirect overhead	<u>3,000,000</u>	5,000,000	4%
Net Profit Before Income Tax		<u>\$12,500,000</u>	10%

- *Net profit before taxes*—profit earned after all costs are deducted. HDX-treme's estimated net profit before taxes is \$12.5 million.

In all, as Table A2.1 shows, HDX-treme expects to earn a profit on its new DVD player of \$12.5 million in 2006. Also note that the percentage of sales that each component of the profit-and-loss statement represents is given in the right-hand column. These percentages are determined by dividing the cost figure by net sales (that is, marketing expenses represent 36% of net sales determined by \$45 million ÷ \$125 million). As can be seen, HDX-treme projects a net profit return on sales of 10% in the first year after launching this product.

Marketing Performance Measures

Now let's fast-forward a year. HDX-treme's high-definition DVD player has been on the market for one year and management wants to assess its sales and profit performance. One way to assess this performance is to compute performance ratios derived from HDX-treme's profit-and-loss statement.

Profit-and-loss statement (or income statement or operating statement)

A statement that shows actual revenues less expenses and net profit for an organization, product, or brand during a specific planning period, typically a year.

Whereas the pro forma profit-and-loss statement shows *projected* financial performance, the statement given in Table A2.2 shows HDX-treme's *actual* financial performance based on actual sales, cost of goods sold, and expenses during the past year. By comparing the profit-and-loss statement from one period to the next, HDX-treme can gauge performance against goals, spot favorable or unfavorable trends, and take appropriate corrective action.

The profit-and-loss statement shows that HDX-treme lost \$1 million rather than making the \$12.5 million profit projected in the pro forma statement. Why? One obvious reason is that net sales fell \$25 million short of estimated sales. Lower sales translated into lower variable costs associated with marketing the product. However, both fixed costs and the cost of goods sold as a percentage of sales exceeded expectations. Hence, the product's contribution margin was 21% rather than the estimated 26%. That is, variable costs represented 79% of sales (55% for cost of goods sold, 10% for sales commissions, 10% for freight, and 4% for co-op allowances). Recall that contribution margin can be calculated by subtracting that fraction from one (1 - 0.79 = 0.21). Total fixed costs were \$22 million, \$2 million more than estimated. Thus, the sales that HDX-treme needed to break even given this cost structure can be calculated as:

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{\$22,000,000}{0.21} = \$104,761,905$$

If HDX-treme had achieved another \$5 million in sales, it would have earned a profit.

Although HDX-treme's sales fell short of the forecasted sales, so did overall industry sales for this product. Overall industry sales were only \$2.5 billion. That means that HDX-treme's market share was 4% (\$100 million ÷ \$2.5 billion = 0.04 = 4%), which was higher than forecasted. Thus, HDX-treme attained a higher-than-expected market share but the overall market sales were not as high as estimated.

Market share

Company sales divided by market sales.

TABLE A2.2
Profit-and-Loss Statement for the 12-Month Period Ended December 31, 2006

		% of sales
Net Sales	\$100,000,000	100%
Cost of Goods Sold	55,000,000	55%
Gross Margin	<u>\$ 45,000,000</u>	45%
Marketing Expenses		
Sales expenses	\$15,000,000	
Promotion expenses	14,000,000	
Freight	<u>10,000,000</u>	39%
General and Administrative Expenses		
Managerial salaries and expenses	\$2,000,000	
Indirect overhead	<u>5,000,000</u>	7%
Net Profit Before Income Tax	<u>(\$1,000,000)</u>	(-1%)

Analytic Ratios

Operating ratios
The ratios of selected operating statement items to net sales.

The profit-and-loss statement provides the figures needed to compute some crucial **operating ratios**—the ratios of selected operating statement items to net sales. These ratios let marketers compare the firm's performance in one year to that in previous years (or with industry standards and competitors' performance in that year). The most commonly used operating ratios are the *gross margin percentage*, the *net profit percentage*, and the *operating expense percentage*. The *inventory turnover rate* and *return on investment (ROI)* are often used to measure managerial effectiveness and efficiency.

Gross margin percentage
The percentage of net sales remaining after cost of goods sold—calculated by dividing gross margin by net sales.

The **gross margin percentage** indicates the percentage of net sales remaining after cost of goods sold that can contribute to operating expenses and net profit before taxes. The higher this ratio, the more a firm has left to cover expenses and generate profit. HDX-treme's gross margin ratio was 45%:

$$\text{Gross margin percentage} = \frac{\text{gross margin}}{\text{net sales}} = \frac{\$45,000,000}{\$100,000,000} = 0.45 = 45\%$$

Note that this percentage is lower than estimated, and this ratio is seen easily in the percentage of sales column in Table A2.2. Stating items in the profit-and-loss statement as a percent of sales allows managers to quickly spot abnormal changes in costs over time. If there was previous history for this product and this ratio was declining, management should examine it more closely to determine why it has decreased (that is, because of a decrease in sales volume or price, an increase in costs, or a combination of these). In HDX-treme's case, net sales were \$25 million lower than estimated, and cost of goods sold was higher than estimated (55% rather than the estimated 50%).

Net profit percentage
The percentage of each sales dollar going to profit—calculated by dividing net profits by net sales.

The **net profit percentage** shows the percentage of each sales dollar going to profit. It is calculated by dividing net profits by net sales:

$$\text{Net profit percentage} = \frac{\text{net profit}}{\text{net sales}} = \frac{-\$1,000,000}{\$100,000,000} = -0.01 = -1.0\%$$

This ratio is easily seen in the percent of sales column. HDX-treme's DVD player generated negative profits in the first year, not a good situation given that before the product launch net profits before taxes were estimated at more than \$12 million. Later in this appendix, we will discuss further analyses the marketing manager should conduct to defend the product.

Operating expense percentage
The portion of net sales going to operating expenses—calculated by dividing total expenses by net sales.

The **operating expense percentage** indicates the portion of net sales going to operating expenses. Operating expenses include marketing and other expenses not directly related to marketing the product, such as indirect overhead assigned to this product. It is calculated by:

$$\text{Operating expense percentage} = \frac{\text{total expenses}}{\text{net sales}} = \frac{\$46,000,000}{\$100,000,000} = 0.46 = 46\%$$

This ratio can also be quickly determined from the percent of sales column in the profit-and-loss statement by adding the percentages for marketing expenses and general and administrative expenses (39% + 7%). Thus, 46 cents of every sales dollar went for operations. Although HDX-treme wants this ratio to be as low as possible, and 46% is not an alarming amount, it is of concern if it is increasing over time or if a loss is realized.

Inventory turnover rate (or stockturn rate for resellers)
The number of times an inventory turns over or is sold during a specified time period (often one year)—calculated based on costs, selling price, or units.

Another useful ratio is the **inventory turnover rate** (also called *stockturn rate* for resellers). The inventory turnover rate is the number of times an inventory turns over or is sold during a specified time period (often one year). This rate tells how quickly a business is moving inventory through the organization. Higher rates indicate that lower investments in inventory are made, thus freeing up funds for other investments. It may be computed on a cost, selling price, or unit basis. The formula based on cost is:

$$\text{Inventory turnover rate} = \frac{\text{cost of goods sold}}{\text{average inventory at cost}}$$

Assuming HDX-treme's beginning and ending inventories were \$30 million and \$20 million, respectively, the inventory turnover rate is:

$$\text{Inventory turnover rate} = \frac{\$55,000,000}{(\$30,000,000 + \$20,000,000)/2} = \frac{\$55,000,000}{\$25,000,000} = 2.2$$

That is, HDX-treme's inventory turned over 2.2 times in 2006. Normally, the higher the turnover rate, the higher the management efficiency and company profitability. However, this rate should be compared to industry averages, competitors' rates, and past performance to

determine if HDX-treme is doing well. A competitor with similar sales but a higher inventory turnover rate will have fewer resources tied up in inventory, allowing it to invest in other areas of the business.

Return on investment (ROI)

A measure of managerial effectiveness and efficiency—net profit before taxes divided by total investment.

Companies frequently use **return on investment (ROI)** to measure managerial effectiveness and efficiency. For HDX-treme, ROI is the ratio of net profits to total investment required to manufacture the new product. This investment includes capital investments in land, buildings, and equipment (here, the initial \$10 million to refurbish the manufacturing facility) plus inventory costs (HDX-treme's average inventory totaled \$25 million), for a total of \$35 million. Thus, HDX-treme's ROI for the DVD player is:

$$\text{Return on investment} = \frac{\text{net profit before taxes}}{\text{investment}} = \frac{-\$1,000,000}{\$35,000,000} = -.0286 = -2.86\%$$

ROI is often used to compare alternatives, and a positive ROI is desired. The alternative with the highest ROI is preferred to other alternatives. HDX-treme needs to be concerned with the ROI realized. One obvious way HDX-treme can increase ROI is to increase net profit by reducing expenses. Another way is to reduce its investment, perhaps by investing less in inventory and turning it over more frequently.

Marketing Profitability Metrics

Given the above financial results, you may be thinking that HDX-treme should drop this new product. But what arguments can marketers make for keeping or dropping this product? The obvious arguments for dropping the product are that first-year sales were well below expected levels and the product lost money, resulting in a negative return on investment.

So what would happen if HDX-treme did drop this product? Surprisingly, if the company drops the product, the profits for the total organization will decrease by \$4 million! How can that be? Marketing managers need to look closely at the numbers in the profit-and-loss statement to determine the *net marketing contribution* for this product. In HDX-treme's case, the net marketing contribution for the DVD player is \$4 million, and if the company drops this product, that contribution will disappear as well. Let's look more closely at this concept to illustrate how marketing managers can better assess and defend their marketing strategies and programs.

Net marketing contribution (NMC)

A measure of marketing profitability that includes only components of profitability controlled by marketing.

Net marketing contribution (NMC), along with other marketing metrics derived from it, measures *marketing profitability*. It includes only components of profitability that are controlled by marketing. Whereas the previous calculation of net profit before taxes from the profit-and-loss statement includes operating expenses not under marketing's control, NMC does not. Referring back to HDX-treme's profit-and-loss statement given in Table A2.2, we can calculate net marketing contribution for the DVD player as:

$$\begin{aligned} \text{NMC} &= \text{net sales} - \text{cost of goods sold} - \text{marketing expenses} \\ &= \$100 \text{ million} - \$55 \text{ million} - \$41 \text{ million} = \$4 \text{ million} \end{aligned}$$

The marketing expenses include sales expenses (\$15 million), promotion expenses (\$14 million), freight expenses (\$10 million), and the managerial salaries and expenses of the marketing function (\$2 million), which total \$41 million.

Thus, the DVD player actually contributed \$4 million to HDX-treme's profits. It was the \$5 million of indirect overhead allocated to this product that caused the negative profit. Further, the amount allocated was \$2 million more than estimated in the pro forma profit-and-loss statement. Indeed, if only the estimated amount had been allocated, the product would have earned a *profit* of \$1 million rather than losing \$1 million. If HDX-treme drops the DVD player product, the \$5 million in fixed overhead expenses will not disappear—it will simply have to be allocated elsewhere. However, the \$4 million in net marketing contribution will disappear.

Marketing return on sales (or marketing ROS)

The percent of net sales attributable to the net marketing contribution—calculated by dividing net marketing contribution by net sales.

To get an even deeper understanding of the profit impact of marketing strategy, we'll now examine two measures of marketing efficiency—*marketing return on sales* (marketing ROS) and *marketing return on investment* (marketing ROI).¹⁰

Marketing return on sales (or marketing ROS) shows the percent of net sales attributable to the net marketing contribution. For our DVD player, ROS is:

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\$4,000,000}{\$100,000,000} = 0.04 = 4\%$$

Marketing return on investment (or marketing ROI)

A measure of the marketing productivity of a marketing investment—calculated by dividing net marketing contribution by marketing expenses.

Thus, out of every \$100 of sales, the product returns \$4 to HDX-treme's bottom line. A high marketing ROS is desirable. But to assess whether this is a good level of performance, HDX-treme must compare this figure to previous marketing ROS levels for the product, the ROSs of other products in the company's portfolio, and the ROSs of competing products.

Marketing return on investment (or marketing ROI) measures the marketing productivity of a marketing investment. In HDX-treme's case, the marketing investment is represented by \$41 million of the total expenses. Thus, Marketing ROI is:

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\$4,000,000}{\$41,000,000} = 0.0976 = 9.76\%$$

As with marketing ROS, a high value is desirable, but this figure should be compared with previous levels for the given product and with the marketing ROIs of competitors' products. Note from this equation that marketing ROI could be greater than 100%. This can be achieved by attaining a higher net marketing contribution and/or a lower total marketing expense.

In this section, we estimated market potential and sales, developed profit-and-loss statements, and examined financial measures of performance. In the next section, we discuss methods for analyzing the impact of various marketing tactics. However, before moving on to those analyses, here's another set of quantitative exercises to help you apply what you've learned to other situations.

Marketing by the Numbers Exercise Set Two

- 2.1 Determine the market potential for a product that has 50 million prospective buyers who purchase an average of 3 per year and price averages \$25. How many units must a company sell if it desires a 10% share of this market?
- 2.2 Develop a profit-and-loss statement for the Westgate division of North Industries. This division manufactures light fixtures sold to consumers through home improvement and hardware stores. Cost of goods sold represents 40% of net sales. Marketing expenses include selling expenses, promotion expenses, and freight. Selling expenses include sales salaries totaling \$3 million per year and sales commissions (5% of sales). The company spent \$3 million on advertising last year, and freight costs were 10% of sales. Other costs include \$2 million for managerial salaries and expenses for the marketing function and another \$3 million for indirect overhead allocated to the division.
 - a. Develop the profit-and-loss statement if net sales were \$20 million last year.
 - b. Develop the profit-and-loss statement if net sales were \$40 million last year.
 - c. Calculate Westgate's break-even sales.
- 2.3 Using the profit-and-loss statement you developed in question 2.2b, and assuming that Westgate's beginning inventory was \$11 million, ending inventory was \$7 million, and total investment was \$20 million including inventory, determine the following:
 - a. gross margin percentage
 - b. net profit percentage
 - c. operating expense percentage
 - d. inventory turnover rate
 - e. return on investment (ROI)
 - f. net marketing contribution
 - g. marketing return on sales (marketing ROS)
 - h. marketing return on investment (marketing ROI)
 - i. Is the Westgate division doing well? Explain your answer.

Financial Analysis of Marketing Tactics

Although the first-year profit performance for HDX-treme's DVD player was less than desired, management feels that this attractive market has excellent growth opportunities. Although the sales of HDX-treme's DVD player were lower than initially projected, they were not unreasonable given the size of the current market. Thus, HDX-treme wants to explore new marketing tactics to help grow the market for this product and increase sales for the company.

For example, the company could increase advertising to promote more awareness of the new DVD player and its category. It could add salespeople to secure greater product distribution. HDX-treme could decrease prices so that more consumers could afford its player.

Finally, to expand the market, HDX-treme could introduce a lower-priced model in addition to the higher-priced original offering. Before pursuing any of these tactics, HDX-treme must analyze the financial implications of each.

Increase Advertising Expenditures

Although most consumers understand DVD players, they may not be aware of high-definition DVD players. Thus, HDX-treme is considering boosting its advertising to make more people aware of the benefits of high-definition DVD players in general and of its own brand in particular.

What if HDX-treme's marketers recommend increasing national advertising by 50% to \$15 million (assume no change in the variable cooperative component of promotional expenditures)? This represents an increase in fixed costs of \$5 million. What increase in sales will be needed to break even on this \$5 million increase in fixed costs?

A quick way to answer this question is to divide the increase in fixed cost by the contribution margin, which we found in a previous analysis to be 21%:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$5,000,000}{0.21} = \$23,809,524$$

Thus, a 50% increase in advertising expenditures must produce a sales increase of almost \$24 million to just break even. That \$24 million sales increase translates into an almost 1 percentage point increase in market share (1% of the \$2.5 billion overall market equals \$25 million). That is, to break even on the increased advertising expenditure, HDX-treme would have to increase its market share from 4% to 4.95% (\$123,809,524 ÷ \$2.5 billion = 0.0495 or 4.95% market share). All of this assumes that the total market will not grow, which might or might not be a reasonable assumption.

Increase Distribution Coverage

HDX-treme also wants to consider hiring more salespeople in order to call on new retailer accounts and increase distribution through more outlets. Even though HDX-treme sells directly to wholesalers, its sales representatives call on retail accounts to perform other functions in addition to selling, such as training retail salespeople. Currently, HDX-treme employs 60 sales reps who earn an average of \$50,000 in salary plus 10% commission on sales. The DVD player is currently sold to consumers through 1,875 retail outlets. Suppose HDX-treme wants to increase that number of outlets to 2,500, an increase of 625 retail outlets. How many additional salespeople will HDX-treme need, and what sales will be necessary to break even on the increased cost?

One method for determining what size sales force HDX-treme will need is the **workload method**. The workload method uses the following formula to determine the salesforce size:

$$NS = \frac{NC \times FC \times LC}{TA}$$

where

- NS = number of salespeople
- NC = number of customers
- FC = average frequency of customer calls per customer
- LC = average length of customer call
- TA = time an average salesperson has available for selling per year

HDX-treme's sales reps typically call on accounts an average of 20 times per year for about 2 hours per call. Although each sales rep works 2,000 hours per year (50 weeks per year × 40 hours per week), they spent about 15 hours per week on nonselling activities such as administrative duties and travel. Thus, the average annual available selling time per sales rep per year is 1,250 hours (50 weeks × 25 hours per week). We can now calculate how many sales reps HDX-treme will need to cover the anticipated 2,500 retail outlets:

$$NS = \frac{2,500 \times 20 \times 2}{1,250} = 80 \text{ salespeople}$$

Therefore, HDX-treme will need to hire 20 more salespeople. The cost to hire these reps will be \$1 million (20 salespeople × \$50,000 salary per sales person).

Workload method

An approach to determining sales force size based on the workload required and the time available for selling.

What increase in sales will be required to break even on this increase in fixed costs? The 10% commission is already accounted for in the contribution margin, so the contribution margin remains unchanged at 21%. Thus, the increase in sales needed to cover this increase in fixed costs can be calculated by:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$1,000,000}{0.21} = \$4,761,905$$

That is, HDX-treme's sales must increase almost \$5 million to break even on this tactic. So, how many new retail outlets will the company need to secure to achieve this sales increase? The average revenue generated per current outlet is \$53,333 (\$100 million in sales divided by 1,875 outlets). To achieve the nearly \$5 million sales increase needed to break even, HDX-treme would need about 90 new outlets ($\$4,761,905 \div \$53,333 = 89.3$ outlets), or about 4.5 outlets per new rep. Given that current reps cover about 31 outlets apiece (1,875 outlets \div 60 reps), this seems very reasonable.

Decrease Price

HDX-treme is also considering lowering its price to increase sales revenue through increased volume. The company's research has shown that demand for most types of consumer electronics products is elastic—that is, the percentage increase in the quantity demanded is greater than the percentage decrease in price. It has also been found that when the price of HDTVs goes down, the quantity of DVD players demanded increases because they are complementary products.

What increase in sales would be necessary to break even on a 10% decrease in price? That is, what increase in sales will be needed to maintain the total contribution that HDX-treme realized at the higher price? The current total contribution can be determined by multiplying the contribution margin by total sales:¹¹

$$\text{Current total contribution} = \text{contribution margin} \times \text{sales} = .21 \times \$100 \text{ million} = \$21 \text{ million}$$

Price changes result in changes in unit contribution and contribution margin. Recall that the contribution margin of 21% was based on variable costs representing 79% of sales. Therefore, unit variable costs can be determined by multiplying the original price by this percentage: $\$336 \times 0.79 = \265.44 per unit. If price is decreased by 10%, the new price is \$302.40. However, variable costs do not change just because price decreased, so the contribution and contribution margin decrease as follows:

	Old	New (reduced 10%)
Price	\$336	\$302.40
- Unit variable cost	\$265.44	\$265.44
= Unit contribution	\$70.56	\$36.96
Contribution margin	$\$70.56/\$336 = 0.21$ or 21%	$\$36.96/\$302.40 = 0.12$ or 12%

So a 10% reduction in price results in a decrease in the contribution margin from 21% to 12%.¹² To determine the sales level needed to break even on this price reduction, we calculate the level of sales that must be attained at the new contribution margin to achieve the original total contribution of \$21 million:

$$\text{New contribution margin} \times \text{new sales level} = \text{original total contribution}$$

So,

$$\text{New sales level} = \frac{\text{original contribution}}{\text{new contribution margin}} = \frac{\$21,000,000}{0.12} = \$175,000,000$$

Thus, sales must increase by \$75 million (\$175 million - \$100 million) just to break even on a 10% price reduction. This means that HDX-treme must increase market share to 7% (\$175 million \div \$2.5 billion) to achieve the current level of profits (assuming no increase in the total market sales). The marketing manager must assess whether or not this is a reasonable goal.

Extend the Product Line

As a final option, HDX-treme is considering extending its DVD player product line by offering a lower-priced model. Of course, the new, lower-priced product would steal some sales from

Cannibalization

The situation in which one product sold by a company takes a portion of its sales from other company products.

the higher-priced model. This is called **cannibalization**—the situation in which one product sold by a company takes a portion of its sales from other company products. If the new product has a lower contribution than the original product, the company's total contribution will decrease on the cannibalized sales. However, if the new product can generate enough new volume, it is worth considering.

To assess cannibalization, HDX-treme must look at the incremental contribution gained by having both products available. Recall in the previous analysis we determined that unit variable costs were \$265.44 and unit contribution was just over \$70. Assuming costs remain the same next year, HDX-treme can expect to realize a contribution per unit of approximately \$70 for every unit of the original DVD player sold.

Assume that the first model high-definition DVD player offered by HDX-treme is called HD1 and the new, lower-priced model is called HD2. HD2 will retail for \$400, and resellers will take the same markup percentages on price as they do with the higher-priced model. Therefore, HD2's price to wholesalers will be \$224 as follows:

Retail price:	\$400
minus retail margin (30%):	– \$120
Retailer's cost/wholesaler's price:	\$280
minus wholesaler's margin (20%):	– \$56
Wholesaler's cost/HDX-treme's price	\$224

If HD2's variable costs are estimated to be \$174, then its contribution per unit will equal \$50 (\$224 – \$174 = \$50). That means for every unit that HD2 cannibalizes from HD1, HDX-treme will lose \$20 in contribution toward fixed costs and profit (that is, $\text{contribution}_{\text{HD2}} - \text{contribution}_{\text{HD1}} = \$50 - \$70 = -\20). You might conclude that HDX-treme should not pursue this tactic because it appears as though the company will be worse off if it introduces the lower-priced model. However, if HD2 captures enough *additional* sales, HDX-treme will be better off even though some HD1 sales are cannibalized. The company must examine what will happen to *total* contribution, which requires estimates of unit volume for both products.

Originally, HDX-treme estimated that next year's sales of HD1 would be 600,000 units. However, with the introduction of HD2, it now estimates that 200,000 of those sales will be cannibalized by the new model. If HDX-treme sells only 200,000 units of the new HD2 model (all cannibalized from HD1), the company would lose \$4 million in total contribution (200,000 units × -\$20 per cannibalized unit = -\$4 million)—not a good outcome. However, HDX-treme estimates that HD2 will generate the 200,000 of cannibalized sales plus an *additional* 500,000 unit sales. Thus, the contribution on these additional HD2 units will be \$25 million (i.e., 500,000 units × \$50 per unit = \$25 million). The net effect is that HDX-treme will gain \$21 million in total contribution by introducing HD2.

The following table compares HDX-treme's total contribution with and without the introduction of HD2:

	HD1 only	HD1 and HD2
HD1 contribution	600,000 units × \$70 = \$42,000,000	400,000 units × \$70 = \$28,000,000
HD2 contribution	0	700,000 units × \$50 = \$35,000,000
Total contribution	\$42,000,000	\$63,000,000

The difference in the total contribution is a net gain of \$21 million (\$63 million – \$42 million). Based on this analysis, HDX-treme should introduce the HD2 model because it results in a positive incremental contribution. However, if fixed costs will increase by more than \$21 million as a result of adding this model, then the net effect will be negative and HDX-treme should not pursue this tactic.

Now that you have seen these marketing tactic analysis concepts in action as they related to HDX-treme's new DVD player, here are several exercises for you to apply what you have learned in this section in other contexts.

Marketing by the Numbers Exercise Set Three

- 3.1 Kingsford, Inc. sells small plumbing components to consumers through retail outlets. Total industry sales for Kingsford's relevant market last year were \$80 million, with

Kingsford's sales representing 10% of that total. Contribution margin is 25%. Kingsford's sales force calls on retail outlets and each sales rep earns \$45,000 per year plus 1% commission on all sales. Retailers receive a 40% margin on selling price and generate average revenue of \$10,000 per outlet for Kingsford.

- a. The marketing manager has suggested increasing consumer advertising by \$300,000. By how much would dollar sales need to increase to break even on this expenditure? What increase in overall market share does this represent?
 - b. Another suggestion is to hire three more sales representatives to gain new consumer retail accounts. How many new retail outlets would be necessary to break even on the increased cost of adding three sales reps?
 - c. A final suggestion is to make a 20% across-the-board price reduction. By how much would dollar sales need to increase to maintain Kingsford's current contribution? (See endnote 12 to calculate the new contribution margin.)
 - d. Which suggestion do you think Kingsford should implement? Explain your recommendation.
- 3.2 PepsiCo sells its soft drinks in approximately 400,000 retail establishments, such as supermarkets, discount stores, and convenience stores. Sales representatives call on each retail account weekly, which means each account is called on by a sales rep 52 times per year. The average length of a sales call is 75 minutes (or 1.25 hours). An average salesperson works 2,000 hours per year (50 weeks per year \times 40 hours per week), but each spends 10 hours a week on nonselling activities, such as administrative tasks and travel. How many sales people does PepsiCo need?
- 3.3 Hair Zone manufactures a brand of hair-styling gel. It is considering adding a modified version of the product—a foam that provides stronger hold. Hair Zone's variable costs and prices to wholesalers are:

	Current hair gel	New foam product
Unit selling price	2.00	2.25
Unit variable costs	.85	1.25

Hair Zone expects to sell 1 million units of the new styling foam in the first year after introduction, but it expects that 60% of those sales will come from buyers who normally purchase Hair Zone's styling gel. Hair Zone estimates that it would sell 1.5 million units of the gel if it did not introduce the foam. If the fixed cost of launching the new foam will be \$100,000 during the first year, should Hair Zone add the new product to its line? Why or why not?

Appendix 3

CAREERS IN MARKETING

Now that you have completed this course in marketing, you have a good idea of what the field entails. You may have decided you want to pursue a marketing career because it offers constant challenge, stimulating problems, the opportunity to work with people, and excellent advancement opportunities. But you still may not know which part of marketing best suits you—marketing is a very broad field offering a wide variety of career options.

This appendix helps you discover what types of marketing jobs best match your special skills and interests, shows you how to conduct the kind of job search that will get you the position you want in the company of your choice, describes marketing career paths open to you, and suggests other information resources.

■ Marketing Careers Today

The marketing field is booming, with nearly a third of all Americans now employed in marketing-related positions. Marketing salaries may vary by company, position, and region, and salary figures change constantly. In general, entry-level marketing salaries usually are only slightly below those for engineering and chemistry but equal or exceed starting salaries in economics, finance, accounting, general business, and the liberal arts. Moreover, if you succeed in an entry-level marketing position, it's likely that you will be promoted quickly to higher levels of responsibility and salary. In addition, because of the consumer and product knowledge you will gain in these jobs, marketing positions provide excellent training for the highest levels in an organization.

Overall Marketing Facts and Trends

In conducting your job search, consider the following facts and trends that are changing the world of marketing.

Focus on customers: More and more, companies are realizing that they win in the marketplace only by creating superior value for customers. To capture value from customers, they must first find new and better ways to solve customer problems and improve customer brand experiences. This increasing focus on the customer puts marketers at the forefront in many of today's companies. As the primary customer-facing function, marketing's mission is to get all company departments to "think customer."

Technology: Technology is changing the way marketers work. For example, price coding allows instantaneous retail inventorying. Software for marketing training, forecasting, and other functions is changing the ways we market. And the Internet is creating new jobs and new recruiting rules. Consider the explosive growth in new media marketing. Whereas advertising firms have traditionally recruited "generalists" in account management, "generalist" has now taken on a whole new meaning—advertising account executives must now have both broad and specialized knowledge.

Diversity: The number of women and minorities in marketing continues to rise.

Traditionally, women were mainly in retailing. However, women and minorities have now moved fully into all industries. They also are rising rapidly into marketing management. For example, women now outnumber men by nearly two to one as advertising account executives. As marketing becomes more global, the need for diversity in marketing positions will continue to increase, opening new opportunities.

Global: Companies such as Coca-Cola, McDonald's, IBM, MTV, Wal-Mart, and Procter & Gamble have become multinational, with manufacturing and marketing operations in hundreds of countries. Indeed, such companies often make more profit from sales outside the United States than from within. And it's not just the big companies that are involved in international marketing. Organizations of all sizes have moved into the global arena. Many new marketing opportunities and careers will be directly linked to the expanding global marketplace. The globalization of business also means that you will need more cultural, language, and people skills in the marketing world of the twenty-first century.

Not-for-profit organizations: Increasingly, colleges, arts organizations, libraries, hospitals, and other not-for-profit organizations are recognizing the need for effectively marketing their "products" and services to various publics. This awareness has led to new marketing positions—with these organizations hiring their own marketing directors and marketing vice presidents or using outside marketing specialists.

Looking for a Job in Today's Marketing World

To choose and find the right job, you will need to apply the marketing skills you've learned in this course, especially marketing analysis and planning. Follow these eight steps for marketing yourself: (1) Conduct a self-assessment and seek career counseling; (2) examine job descriptions; (3) explore the job market and assess opportunities; (4) develop search strategies; (5) prepare a résumé; (6) write a cover letter and assemble supporting documents; (7) interview for jobs; and (8) follow up.

Conduct a Self-Assessment and Seek Career Counseling

If you're having difficulty deciding what kind of marketing position is the best fit for you, start out by doing some self-testing or get some career counseling. Self-assessments require that you honestly and thoroughly evaluate your interests, strengths, and weaknesses. What do you do well (your best and favorite skills) and not so well? What are your favorite interests? What are your career goals? What makes you stand out from other job seekers?

The answers to such questions may suggest which marketing careers you should seek or avoid. For help in making an effective self-assessment, look at the following books in your local bookstore: Susan Johnston, *The Career Adventure: Your Guide to Personal Assessment, Career Exploration, and Decision Making*, 4th edition (Prentice Hall, 2006) and Richard Bolles, *What Color Is Your Parachute 2007?* (Ten Speed Press, 2006). Many Web sites also offer self-assessment tools, such as the Keirsey Temperament Theory and the Temperament Sorter, a free but broad assessment available at AdvisorTeam.com. For a more specific evaluation, CareerLeader.com offers a complete online business career self-assessment program designed by the Directors of MBA Career Development at Harvard Business School. You can use this for a fee.

For help in finding a career counselor to guide you in making a career assessment, Richard Bolles' *What Color Is Your Parachute 2007?* contains a useful state-by-state sampling. CareerLeader.com also offers personal career counseling. (Some counselors can help you in your actual job search, too.) You can also consult the career counseling, testing, and placement services at your college or university.

Examine Job Descriptions

After you have identified your skills, interests, and desires, you need to see which marketing positions are the best match for them. Two U.S. Labor Department publications (available in your local library or online)—the *Occupation Outlook Handbook* (www.bls.gov/oco) and the *Dictionary of Occupational Titles* (www.occupationalinfo.org)—describe the duties involved in various occupations, the specific training and education needed, the availability of jobs in each field, possibilities for advancement, and probable earnings.

Your initial career shopping list should be broad and flexible. Look for different ways to achieve your objectives. For example, if you want a career in marketing management, consider the public as well as the private sector, and local and regional as well as national and

international firms. Be open initially to exploring many options, then focus on specific industries and jobs, listing your basic goals as a way to guide your choices. Your list might include "a job in a start-up company, near a big city on the West Coast, doing new-product planning with a computer software firm."

Explore the Job Market and Assess Opportunities

At this stage, you need to look at the market and see what positions are actually available. You do not have to do this alone. Any of the following may assist you.

Career Development Centers

Your college's career development center is an excellent place to start. Besides checking with your career development center on specific job openings, check the current edition of the National Association of Colleges and Employers *Job Outlook* (www.jobweb.com). It contains a national forecast of hiring intentions of employers as they relate to new college graduates. More and more, college career development centers are also going online. For example, the Web site of the undergraduate career services of Indiana University's Kelley School of Business has a list of career links (<http://ucso.indiana.edu/cgi-bin/students/careerResources/>) that can help to focus your job search.

In addition, find out everything you can about the companies that interest you by consulting business magazines, Web sites, annual reports, business reference books, faculty, career counselors, and others. Try to analyze the industry's and the company's future growth and profit potential, advancement opportunities, salary levels, entry positions, travel time, and other factors of significance to you.

Job Fairs

Career development centers often work with corporate recruiters to organize on-campus job fairs. You might also use the Internet to check on upcoming career fairs in your region. For example, visit JobWeb's College Career Fairs page at http://www.jobweb.com/employ/fairs/public_fairs.asp.

Networking and the Yellow Pages

Networking, or asking for job leads from friends, family, people in your community, and career centers, is one of the best ways to find a marketing job. A recent study estimated that 60.7 percent of jobs are found through networking. The idea is to spread your net wide, contacting anybody and everybody.

The phone book's yellow pages are another effective way to job search. Check out employers in your field of interest in whatever region you want to work, then call and ask if they are hiring for the position of your choice.

Cooperative Education and Internships

According to the National Association of Colleges and Employers 2004 Experimental Education Survey, employers on average give full-time employment offers to about 58 percent of students who have had internships with their companies. They give offers to more than 67 percent of the students that participate in co-ops with their organizations. Many company Internet sites have separate internship areas. For example, check out WetFeet (www.wetfeet.internshipprograms.com), MonsterTRAK.com (www.monstertrak.monster.com), CampusCareerCenter.com (www.campuscareercenter.com/students/intern.asp), InternJobs.com, and InternAbroad.com. If you know of a company for which you wish to work, go to that company's corporate Web site, enter the human resources area, and check for internships. If none are listed, try e-mailing the human resources department, asking if internships are offered.

The Internet

A constantly increasing number of sites on the Internet deal with job hunting. You can also use the Internet to make contacts with people who can help you gain information on companies and research companies that interest you. The Riley Guide offers a great introduction to what jobs are available (www.rileyguide.com). Other helpful sites are Employment Opportunities for People with Disabilities (www.dol.gov/odep/joblinks/joblinks.htm) and

HireDiversity (www.hirediversity.com), which contains information on opportunities for African Americans, Hispanic Americans, Asian Americans, and Native Americans.

Most companies have their own Web sites on which they post job listings. This may be helpful if you have a specific and fairly limited number of companies that you are keeping your eye on for job opportunities. But if this is not the case, remember that to find out what interesting marketing jobs the companies themselves are posting, you may need to visit hundreds of corporate sites.

Develop Search Strategies

Once you've decided which companies you are interested in, you need to contact them. One of the best ways is through on-campus interviews. But not every company you are interested in will visit your school. In such instances, you can write, e-mail, or phone the company directly or ask marketing professors or school alumni for contacts.

Prepare a Résumé

A résumé is a concise yet comprehensive written summary of your qualifications, including your academic, personal, and professional achievements, that showcases why you are the best candidate for the job. An employer will spend an average of only 15 to 20 seconds reviewing your résumé; therefore, you want to be sure that you prepare a good one.

In preparing your résumé, remember that all information on it must be accurate and complete. Résumés typically begin with the applicant's full name, telephone and fax numbers, and mail and e-mail addresses. A simple and direct statement of career objectives generally appears next, followed by work history and academic data (including awards and internships), and then by personal activities and experiences applicable to the job sought.

The résumé sometimes ends with a list of references the employer may contact (at other times, references may be listed separately). If your work or internship experience is limited, nonexistent, or irrelevant, then it is a good idea to emphasize your academic and nonacademic achievements, showing skills related to those required for excellent job performance.

There are three types of résumés. Reverse *chronological* résumés, which emphasize career growth, are organized in reverse chronological order, starting with your most recent job. They focus on job titles within organizations, describing the responsibilities required for each job. *Functional* résumés focus less on job titles and work history and more on assets and achievements. This format works best if your job history is scanty or discontinuous. *Mixed*, or *combination*, résumés take from each of the other two formats. First, the skills used for a specific job are listed, then the job title is stated. This format works best for applicants whose past jobs are in other fields or seemingly unrelated to the position.

Your local bookstore or library has many books that can assist you in developing your résumé. Popular guides are Brenda Greene, *Get the Interview Every Time: Fortune 500 Hiring Professionals' Tips for Writing Winning Resumes and Cover Letters* (Dearborn Trade, 2004) and Arthur Rosenberg and David Hizer, *The Résumé Handbook* (Adams Media Corporation, 2003). Computer software programs, such as *RésuméMaker Career Edition*, provide hundreds of sample résumés and ready-to-use phrases while guiding you through the résumé preparation process. America's Career InfoNet (www.acinet.org/acinet/resume/resume_intro.asp) offers a step-by-step résumé tutorial, and Monster.com (www.resume.monster.com) offers résumé advice and writing services. Finally, you can even create your own personalized online résumé at sites such as optimalresume.com.

Electronic Résumés

Use of the Internet as a tool in the job search process is increasing, so it's a good idea to have your résumé ready for the online environment. You can forward an electronic résumé to networking contacts or recruiting professionals through e-mail. You can also post it in online databases with the hope that employers and recruiters will find it.

Successful electronic résumés require a different strategy than paper résumés. For instance, when companies search résumé banks, they search key words and industry buzz words that describe a skill or core work required for each job, so nouns are much more important than verbs. Two good resources for preparing electronic résumés are Susan Ireland's Electronic Resume Guide (<http://susanireland.com/eresumeguide/>) and The Riley Guide (www.rileyguide.com/eresume.html).

After you have written your electronic résumé, you need to post it. The following sites may be good locations to start: Monster.com (www.monster.com) and Yahoo! hotjobs (www.hotjobs.yahoo.com). However, use caution when posting your résumé on various sites. In this era of identity theft, you need to select sites with care so as to protect your privacy. Limit access to your personal contact information and don't use sites that offer to "blast" your résumé into cyberspace.

Résumé Tips

- Communicate your worth to potential employers in a concrete manner, citing examples whenever possible.
- Be concise and direct.
- Use active verbs to show you are a doer.
- Do not skimp on quality or use gimmicks. Spare no expense in presenting a professional résumé.
- Have someone critique your work. A single typo can eliminate you from being considered.
- Customize your résumé for specific employers. Emphasize your strengths as they pertain to your targeted job.
- Keep your résumé compact, usually one page.
- Format the text to be attractive, professional, and readable. Times New Roman is often the font of choice. Avoid too much "design" or gimmicky flourishes.

Write Cover Letter, Follow Up, and Assemble Supporting Documents

Cover Letter

You should include a cover letter informing the employer that a résumé is enclosed. But a cover letter does more than this. It also serves to summarize in one or two paragraphs the contents of the résumé and explains why you think you are the right person for the position. The goal is to persuade the employer to look at the more detailed résumé. A typical cover letter is organized as follows: (1) the name and position of the person you are contacting; (2) a statement identifying the position you are applying for, how you heard of the vacancy, and the reasons for your interest; (3) a summary of your qualifications for the job; (4) a description of what follow-ups you intend to make, such as phoning in two weeks to see if the résumé has been received; (5) an expression of gratitude for the opportunity of being a candidate for the job. America's Career InfoNet (www.acinet.org/acinet/resume/resume_intro.asp) offers a step-by-step tutorial on how to create a cover letter, and Susan Ireland's Web site contains more than 50 cover letter samples (<http://susanireland.com/coverletterindex.htm>).

Follow-Up

Once you send your cover letter and résumé to perspective employers via the method they prefer—e-mail, their Web site, fax, or regular mail—it's often a good idea to follow up. In today's market, job seekers can't afford to wait for interviews to find them. A quality résumé and an attractive cover letter are crucial, but a proper follow-up may be the key to landing an interview. However, before you engage your potential employer, be sure to research the company. Knowing about the company and understanding its place in the industry will help you shine. When you place a call, send an e-mail, or mail a letter to a company contact, be sure to restate your interest in the position, check on the status of your résumé, and ask the employer about any questions they may have.

Letters of Recommendation

Letters of recommendation are written references by professors, former and current employers, and others that testify to your character, skills, and abilities. Some companies may request letters of recommendation, to be submitted either with the résumé or at the interview. Even if letters of recommendation aren't requested, it's a good idea to bring them with you to the interview. A good reference letter tells why you would be an excellent candidate for the position. In choosing someone to write a letter of recommendation, be confident that

the person will give you a good reference. In addition, do not assume the person knows everything about you or the position you are seeking. Rather, provide the person with your résumé and other relevant data. As a courtesy, allow the reference writer at least a month to complete the letter and enclose a stamped, addressed envelope with your materials.

In the packet containing your résumé, cover letter, and letters of recommendation, you may also want to attach other relevant documents that support your candidacy, such as academic transcripts, graphics, portfolios, and samples of writing.

Interview for Jobs

As the old saying goes, "The résumé gets you the interview; the interview gets you the job." The job interview offers you an opportunity to gather more information about the organization, while at the same time allowing the organization to gather more information about you. You'll want to present your best self. The interview process consists of three parts: before the interview, the interview itself, and after the interview. If you pass through these stages successfully, you will be called back for the follow-up interview.

Before the Interview

In preparing for your interview, do the following:

1. Understand that interviewers have diverse styles, including the "chitchat," let's-get-to-know-each-other style; the interrogation style of question after question; and the tough-probing "why, why, why" style, among others. So be ready for anything.
2. With a friend, practice being interviewed and then ask for a critique. Or, videotape yourself in a practice interview so that you can critique your own performance. Your college placement service may also offer "mock" interviews to help you.
3. Prepare at least five good questions whose answers are not easily found in the company literature, such as "What is the future direction of the firm?" "How does the firm differentiate itself from competitors?" "Do you have a new-media division?"
4. Anticipate possible interview questions, such as "Why do you want to work for this company?" or "Why should we hire you?" Prepare solid answers before the interview. Have a clear idea of why you are interested in joining the company and the industry to which it belongs. (See Susan Ireland's site for additional interview questions: <http://susanireland.com/interviewwork.html>)
5. Avoid back-to-back interviews—they can be exhausting and it is unpredictable how long they will last.
6. Prepare relevant documents that support your candidacy, such as academic transcripts, letters of recommendation, graphics, portfolios, and samples of writing. Bring multiple copies to the interview.
7. Dress conservatively and professionally. Be neat and clean.
8. Arrive 10 minutes early to collect your thoughts and review the major points you intend to cover. Check your name on the interview schedule, noting the name of the interviewer and the room number. Be courteous and polite to office staff.
9. Approach the interview enthusiastically. Let your personality shine through.

During the Interview

During the interview, do the following:

1. Shake hands firmly in greeting the interviewer. Introduce yourself, using the same form of address the interviewer uses. Focus on creating a good initial impression.
2. Keep your poise. Relax, smile when appropriate, and be upbeat throughout.
3. Maintain eye contact, good posture, and speak distinctly. Don't clasp your hands or fiddle with jewelry, hair, or clothing. Sit comfortably in your chair. Do not smoke, even if it's permitted.
4. Along with the copies of relevant documents that support your candidacy, carry extra copies of your résumé with you.
5. Have your story down pat. Present your selling points. Answer questions directly. Avoid either one-word or too-wordy answers.

6. Let the interviewer take the initiative but don't be passive. Find an opportunity to direct the conversation to things about yourself that you want the interviewer to hear.
7. To end on a high note, make your most important point or ask your most pertinent question during the last part of the interview.
8. Don't hesitate to "close." You might say, "I'm very interested in the position, and I have enjoyed this interview."
9. Obtain the interviewer's business card or address and phone number so that you can follow up later.

A tip for acing the interview: Before you open your mouth, find out *what it's like* to be a brand manager, sales representative, market researcher, advertising account executive, or other position for which you're interviewing. See if you can find a "mentor"—someone in a position similar to the one you're seeking, perhaps with another company. Talk with this mentor about the ins and outs of the job and industry.

After the Interview

After the interview, do the following:

1. After leaving the interview, record the key points that arose. Be sure to note who is to follow up and when a decision can be expected.
2. Analyze the interview objectively, including the questions asked, the answers to them, your overall interview presentation, and the interviewer's responses to specific points.
3. Immediately send a thank-you letter or e-mail, mentioning any additional items and your willingness to supply further information.
4. If you do not hear within the specified time, write, e-mail, or call the interviewer to determine your status.

Follow Up

If your first interview takes place off-site, such as at your college or at a job fair, and if you are successful with that initial interview, you will be invited to visit the organization. The in-company interview will probably run from several hours to an entire day. The organization will examine your interest, maturity, enthusiasm, assertiveness, logic, and company and functional knowledge. You should ask questions about issues of importance to you. Find out about the working environment, job role, responsibilities, opportunity for advancement, current industrial issues, and the company's personality. The company wants to discover if you are the right person for the job, whereas you want to find out if it is the right job for you. The key is to determine if the right *fit* exists between you and the company.

Marketing Jobs

This section describes some of the key marketing positions.

Advertising

Advertising is one of today's hottest fields in marketing. In fact, *Money* magazine lists a position in advertising as among the 50 best jobs in America.

Job Descriptions

Key advertising positions include copywriter, art director, production manager, account executive, and media planner/buyer.

- *Copywriters* write advertising copy and help find the concepts behind the written words and visual images of advertisements.
- *Art directors*, the other part of the creative team, help translate the copywriters' ideas into dramatic visuals called "layouts." Agency artists develop print layouts, package designs, television layouts (called "storyboards"), corporate logotypes, trademarks, and symbols.

- *Production managers* are responsible for physically creating ads, in-house or by contracting through outside production houses.
- *Account development executives* research and understand clients' markets and customers and help develop marketing and advertising strategies to impact them.
- *Account executives* serve as liaisons between clients and agencies. They coordinate the planning, creation, production, and implementation of an advertising campaign for the account.
- *Account planners* serve as the voice of the consumer in the agency. They research consumers to understand their needs and motivations as a basis for developing effective ad campaigns.
- *Media planners (or buyers)* determine the best mix of television, radio, newspaper, magazine, and other media for the advertising campaign.

Skills Needed, Career Paths, and Typical Salaries

Work in advertising requires strong people skills in order to interact closely with an often-difficult and demanding client base. In addition, advertising attracts people with high skills in planning, problem solving, creativity, communication, initiative, leadership, and presentation. Advertising involves working under high levels of stress and pressure created by unrelenting deadlines. Advertisers frequently have to work long hours to meet deadlines for a presentation. But work achievements are very apparent, with the results of creative strategies observed by thousands or even millions of people.

Because they are so sought after, positions in advertising sometimes require an MBA. But there are many jobs open for business, graphics arts, and liberal arts undergraduates. Advertising positions often serve as gateways to higher-level management. Moreover, with large advertising agencies opening offices all over the world, there is the possibility of eventually working on global campaigns.

Starting advertising salaries are relatively low compared to some other marketing jobs because of strong competition for entry-level advertising jobs. You may even want to consider working for free to break in. Compensation will increase quickly as you move into account executive or other management positions. For more facts and figures, see the Web pages of *Advertising Age*, a key ad industry publication (www.adage.com, click on the Job Bank button), and the American Association of Advertising Agencies (www.aaaa.org).

Brand and Product Management

Brand and product managers plan, direct, and control business and marketing efforts for their products. They are involved with research and development, packaging, manufacturing, sales and distribution, advertising, promotion, market research, and business analysis and forecasting.

Job Descriptions

A company's brand management team consists of people in several positions.

- *Brand managers* guide the development of marketing strategies for a specific brand.
- *Assistant brand managers* are responsible for certain strategic components of the brand.
- *Product managers* oversee several brands within a product line or product group.
- *Product category managers* direct multiple product lines in the product category.
- *Market analysts* research the market and provide important strategic information to the project managers.
- *Project directors* are responsible for collecting market information on a marketing or product project.
- *Research directors* oversee the planning, gathering, and analyzing of all organizational research.

Skills Needed, Career Paths, and Typical Salaries

Brand and product management requires high problem-solving, analytical, presentation, communication, and leadership skills, as well as the ability to work well in a team. Product management requires long hours and involves the high pressure of running large projects. In consumer goods companies, the newcomer—who usually needs an MBA—joins a brand team

as an assistant and learns the ropes by doing numerical analyses and watching senior brand people. This person eventually heads the team and later moves on to manage a larger brand, then several brands.

Many industrial goods companies also have product managers. Product management is one of the best training grounds for future corporate officers. Product management also offers good opportunities to move into international marketing. Product managers command relatively high salaries. Because this job category encourages or requires a master's degree, starting pay tends to be higher than in other marketing categories such as advertising or retailing.

Sales and Sales Management

Sales and sales management opportunities exist in a wide range of profit and not-for-profit organizations and in product and service organizations, including financial, insurance, consulting, and government organizations.

Job Descriptions

Key jobs include consumer sales, industrial sales, national account manager, service support, sales trainers, sales management, and telesellers.

- *Consumer sales* involves selling consumer products and services through retailers.
- *Industrial sales* involves selling products and services to other businesses.
- *National account managers (NAM)* oversee a few very large accounts.
- *Service support* personnel support salespeople during and after the sale of a product.
- *Sales trainers* train new hires and provide refresher training for all sales personnel.
- *Sales management* includes a sequence of positions ranging from district manager to vice president of sales.
- The *teleseller* (not to be confused with the home consumer telemarketer) offers service and support to field salespeople.

Salespeople enjoy active professional lives, working outside the office and interacting with others. They manage their own time and activities. And successful salespeople can be very well paid. Competition for top jobs can be intense. Every sales job is different, but some positions involve extensive travel, long workdays, and working under pressure. You can also expect to be transferred more than once between company headquarters and regional offices. However, most companies are now working to bring good work-life balance to their salespeople and sales managers.

Skills Needed, Career Paths, and Typical Salaries

Selling is a people profession in which you will work with people every day, all day long. Besides people skills, sales professionals need sales and communication skills. Most sales positions also require high problem-solving, analytical, presentation, and leadership ability as well as creativity and initiative. Teamwork skills are increasingly important.

Career paths lead from salesperson to district, regional, and higher levels of sales management and, in many cases, to the top management of the firm. Today, most entry-level sales management positions require a college degree. Increasingly, people seeking selling jobs are acquiring sales experience in an internship capacity or from a part-time job before graduating. Sales positions are great springboards to leadership positions, with more CEOs starting in sales than in any other entry-level position. Possibly this explains why competition for top sales jobs is intense.

Starting base salaries in sales may be moderate, but compensation is often supplemented by significant commission, bonus, or other incentive plans. In addition, many sales jobs include a company car or car allowance. Successful salespeople are among most companies' highest paid employees.

Other Marketing Jobs

Retailing

Retailing provides an early opportunity to assume marketing responsibilities. Key jobs include store manager, regional manager, buyer, department manager, and salesperson. *Store managers* direct the management and operation of an individual store. *Regional managers* manage groups of stores across several states and report performance to headquarters. *Buyers*

select and buy the merchandise that the store carries. The *department manager* acts as store manager of a department, such as clothing, but on the department level. The *salesperson* sells merchandise to retail customers. Retailing can involve relocation, but generally there is little travel, unless you are a buyer. Retailing requires high people and sales skills because retailers are constantly in contact with customers. Enthusiasm, willingness, and communication skills are very helpful for retailers, too.

Retailers work long hours, but their daily activities are often more structured than some types of marketing positions. Starting salaries in retailing tend to be low, but pay increases as you move into management or some retailing specialty job.

Marketing Research

Marketing researchers interact with managers to define problems and identify the information needed to resolve them. They design research projects, prepare questionnaires and samples, analyze data, prepare reports, and present their findings and recommendations to management. They must understand statistics, consumer behavior, psychology, and sociology. A master's degree helps. Career opportunities exist with manufacturers, retailers, some wholesalers, trade and industry associations, marketing research firms, advertising agencies, and governmental and private nonprofit agencies.

New-Product Planning

People interested in new-product planning can find opportunities in many types of organizations. They usually need a good background in marketing, marketing research, and sales forecasting; they need organizational skills to motivate and coordinate others; and they may need a technical background. Usually, these people work first in other marketing positions before joining the new-product department.

Marketing Logistics (Physical Distribution)

Marketing logistics, or physical distribution, is a large and dynamic field, with many career opportunities. Major transportation carriers, manufacturers, wholesalers, and retailers all employ logistics specialists. Increasingly, marketing teams include logistics specialists, and marketing managers' career paths include marketing logistics assignments. Coursework in quantitative methods, finance, accounting, and marketing will provide you with the necessary skills for entering the field.

Public Relations

Most organizations have a public relations staff to anticipate problems with various publics, handle complaints, deal with media, and build the corporate image. People interested in public relations should be able to speak and write clearly and persuasively, and they should have a background in journalism, communications, or the liberal arts. The challenges in this job are highly varied and very people oriented.

Not-for-Profit Services

The key jobs in nonprofits include marketing director, director of development, event coordinator, publication specialist, and intern/volunteers. The *marketing director* is in charge of all marketing activities for the organization. The *director of development* organizes, manages, and directs the fund-raising campaigns that keep a nonprofit in existence. An *event coordinator* directs all aspects of fund-raising events, from initial planning through implementation. The *publication specialist* oversees publications designed to promote awareness of the organization.

Although typically an unpaid position, the *intern/volunteer* performs various marketing functions, and this work can be an important step to gaining a full-time position. The nonprofit sector is typically not for someone who is money driven. Rather, most nonprofits look for people with a strong sense of community spirit and the desire to help others. So starting pay is usually lower than in other marketing fields. However, the bigger the nonprofit, the better your chance of rapidly increasing your income when moving into upper management.

Other Resources

Professional marketing associations and organizations are another source of information about careers. Marketers belong to many such societies. You may want to contact some of the following in your job search:

- American Advertising Federation, 1101 Vermont Avenue NW, Suite 500, Washington, D.C. 20005-6306. (202) 898-0089 (www.aaf.org)
- American Marketing Association, 311 South Wacker Drive, Suite 5800, Chicago, IL 60606. (800) AMA-1150 (www.ama.org)
- Market Research Association, 2189 Silas Deane Highway, Suite 5, Rocky Hill, CT 06067. (860) 257-4008 (www.mra-net.org)
- National Association of Sales Professionals, 11000 North 130th Place, Scottsdale, AZ 85259. (480) 951-4311 (www.nasp.com)
- National Management Association, 2210 Arbor Boulevard, Dayton, OH 45439. (937) 294-0421 (www.nma1.org)
- National Retail Federation, 325 Seventh Street NW, Suite 1100, Washington, D.C. 20004. (800) NRF-HOW2 (www.nrf.com)
- Product Development and Management Association, 15000 Commerce Parkway, Suite C, Mount Laurel, NJ 08054. (800) 232-5241 (www.pdma.org)
- Public Relations Society of America, 33 Maiden Lane, Eleventh Floor, New York, NY 10038. (212) 460-1400 (www.prsa.org)
- Sales and Marketing Executives International, PO Box 1390, Sumas, WA 98295-1390. (312) 893-0751 (www.smei.org)
- The Association of Women in Communications, 780 Ritchie Highway, Suite 28-S, Severna Park, MD 21146. (410) 544-7442 (www.womcom.org)
- Women Executives in Public Relations, FDR Station, PO Box 7657, New York, NY 10150-7657. (212) 859-7375 (www.wepri.org)