Marketing Planning: Yes, it really works! Experiences from the real world

STEWART BARNES, MANAGING DIRECTOR OF QUOLUX

Yes, it does work, but it needs senior management focus and drive from the top.*

Creating a market-focused business plan is too important to be delegated down the organization. As McDonald notes, 'The top 50 USA corporations lose $50 billion a year through failed strategy implementation, i.e. poor leadership. Without effective leadership, even the most outstanding growth strategies will fail' (Barnes et al., 2015).

So, there is the challenge.

If you truly wish to transform your company into a high-performing business, then a game-changing activity that is critical to shape the destiny of your leadership and your company is to understand where your sales and profits come from, segment your market, build strategies for the segments you choose to compete in, then align your operations to deliver the value that customers seek. You then must do that consistently over a period of time.

I first met Malcolm in the mid-1990s and was exposed to the Strategic Marketing Planning (SMP) process which I refer to as MPP – Marketing Planning Process. Impressed by its rigour and robustness, I used it successfully in Pilkington, across a family-owned group of companies in many European countries, and more recently in my own company, QuoLux, taking it into dozens of small and medium-sized enterprises (SMEs). These are from various sectors operating in different countries facing an array of opportunities and challenges.

Typically, when I walk into them, I find most leaders cannot describe their markets, how those markets work, what position their business has in the market compared to that of their competitors and what market segments are available. If organizations cannot do that, how can they create competitive advantage? How can they generate superior profits (over the long term)?

For the last number of years, my organization has exclusively worked with SMEs. Research conducted by Barclays in 2014 reveals that one in four small businesses (twenty-three per cent) do not have any strategy in place to support their business growth. Less than half (forty-seven per cent) of the UK's SMEs have a formal business plan in place that is written down or recorded, while the remaining thirty per cent have an informal, verbal plan.

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* 'It' refers to a Strategic Marketing Planning Process (MPP).

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By Malcolm McDonald and Hugh Wilson
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These are a frightening set of statistics especially considering SMEs represent ninety-five per cent of all companies in the UK and sixty per cent of the country's turnover. You wouldn't go on a fortnight's holiday without a destination in mind or a map to hand. Why then treat your business with such disregard?

Research on the QuoLux LEAD programme (Barnes et al., 2015) confirms an increase from fifty-three per cent to eighty-nine per cent of companies having a business plan and an increase from fifty-two per cent to eighty-six per cent in understanding the priority and profitability of target markets. The business outcome is an average growth of twenty-seven per cent the year after completing the programme. The assertion, that strategic marketing planning works with effective leadership, seems to hold some sway.

On LEAD, we encourage businesses to implement an MPP and follow the four phase and 10-stage approach in Figure A.

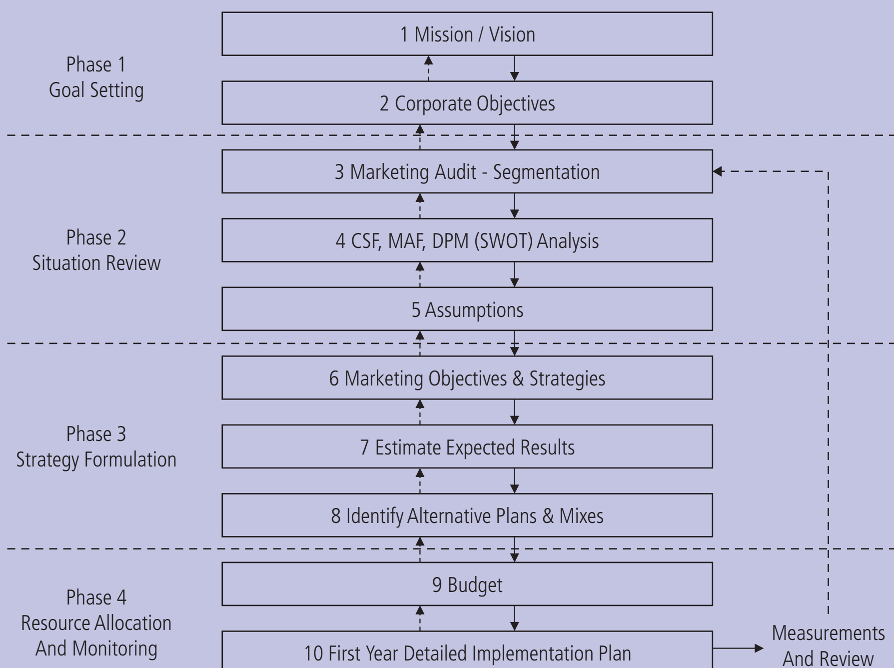

Figure A: Strategic Marketing Planning Process (MPP).

Phase 1 (Stages 1 & 2) – Goal Setting

For those businesses that attempt to create business plans, I often observe that they fall into the trap of writing poor mission and vision statements that can apply to any company rather than being meaningful to them.

So, phase 1 in a robust strategic planning process has two stages. Firstly, Stage 1, bring the senior management team together to agree the mission – 'we are in business to do … (what?)' and then establish the vision – 'where do we want to be in "x" years and what do we want our company to look like?' Critically, the mission is constant whereas the vision should change over time, especially when visions are realized. Creating a mission and a vision is not as easy as it sounds. The senior management team needs to debate and agree the true purpose of the organization ahead of galvanizing around a vision.

Stage 2 is to agree the corporate goals, specifically the financial goals – primarily, turnover and profitability.

Phase 2 (Stages 3, 4 & 5) – Situation Review

Rather surprisingly, phase 2, the situation review with its three stages, is often missed out. Organizations collect a lot of data in their everyday business but fail in turning it into usable information.

Stage 3 is a 'Marketing Audit' where I suggest senior managers take time to analyse where their sales and profits come from. This is a crucial piece of work and must not be hurried. A key piece of analysis is identifying the rate-determining step – the bottleneck – as the profitability of the key product/service in the key market segments is dependent on the flow of the product/service through the bottleneck.

> Case Study A: Many businesses price using a percentage gross margin that can lead senior managers to focus on the wrong areas for growth. A professional service company marketed three distinct services. Service X had a sixty per cent margin, Service Y had a forty per cent margin and service Z a twenty-five per cent margin. The senior managers wanted to grow their company and were about to focus most of their efforts on 'X' until they realized that the bottleneck was their fee-earners. A benchmark of what was the most profitable work that could be 'produced and billed' in an hour was calculated, i.e. gross profit per bottleneck hour (GP/hr). Comparing the services they found:
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> - Sales of service X *produced* in one hour = £100 @ 60% margin was GP/hr of £60.
> - Sales of service Y *produced* in one hour = £200 @ 40% was GP/hr of £80.
> - Sales of service Z *produced* in one hour = £1,000 @ 25% was GP/hr of £250.
>
> Services X, Y and Z were required to varying degrees by clients in the market segment who preferred having the one 'supplier' to deliver all three services. The professional services company focused its efforts on clients with demand for Z and kept services X and Y to ensure they always secured service Z work. Sales grew by over twenty per cent per annum and profitably increased five-fold.

Also, take time to map out the 'route-to-market', i.e. how your product/service flows through your industry. This may highlight some previously unexplored market opportunities.

> Case Study B: An SME manufacturer was the largest supplier of its type of product in a few market segments and spotted an opportunity in a related market segment where it had little presence.
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> The normal route-to-market in this 'new segment' was for manufacturers to supply distributors who in turn sold to installers. The distributors' positional power led to large demands for large annual rebates from suppliers. So, at distributor level, a market rate of '100 dollars' was an actual a price of 97. Price at installer level was 110.
>
> The SME manufacturer used the route-to-market analysis to enter the segment by supplying installers direct and offering a price of 109, i.e. a nine per cent premium to what its competitors were receiving from distributors. Competitors of the manufacturer could not follow this action and sell to installers, as that would destroy their relationships with distributors. All that distributors could do was react by dropping the price to 108 and demanding a new purchase price of 98 (nett 95). The SME manufacturer

> reacted with a new price of 107. Again distributors re-priced at 106 and bought at 96 (nett 93). This cycle was repeated until the SME manufacturer was selling at 100 and its competitors were losing money, eventually leaving the segment or going out of business.

Cluster similar customers to create meaningful 'key market segments', identify the key products or services that are purchased, prioritize these 'key product/services to key market segments' by understanding the profitability, market demand and market potential.

Stage 4 commences by identifying why customers in these segments buy these key products/services. Ask clients to prioritize their 'buying needs', their Critical Success Factors (CSFs), scoring you and subsequently your competitors.

You now have agreed the prioritized market segments in terms of profitability and have an insight into customers' (and/or potential customers) buying priorities and their views on how they rate you and your competitors – marketing intelligence dynamite!

This piece of work can be undertaken by your teams or independently. I prefer the former, as almost no organization carries out this sort of focused research and customers delight in the fact that suppliers are taking an interest in them and their business. This results in customers sharing 'tacit' knowledge that independent researchers may dismiss as unimportant or who do not have the commercial awareness to ask a timely follow up question to gain further understanding. I encourage senior management teams to spend time exploring Stage 4 as it shines a light on potential opportunities, strengths and areas to focus on.

The next part of Stage 4 is for the senior team to meet and agree what an attractive market looks like, i.e. establish Market Attractiveness Factors (MAF) and to prioritize the key product to key market segments. This is an area of lively debate and quite essential in ensuring senior management teams agree and coalesce around the aspects of greatest importance to the firm. Whether the venture is a private company or charity, the goal is to make money (Goldratt and Cox, 2004). Therefore, what are the MAFs that enable the firm to maximize its position?

Now you have CSF from customers and MAF agreed by the senior management team, by plotting them you can create a Directional Policy Matrix (DPM). Companies that do this find it a transformative experience as they can now see their prioritized business on one page.

Do not fall into the trap of undertaking a traditional SWOT analysis where the same words appear under both 'Strengths' and 'Weaknesses' and 'Opportunities' and 'Threats'. Rather, use the CSF, MAF and DPM to create a SWOT per segment.

In Stage 5, ensure you note all the assumptions so that you can refer to them next year when you come to refresh the plan. Yes, good practice is to write a new plan every year.

Phase 3 (Stages 6, 7 & 8) – Strategy Formulation

A key step is for the business leaders to create winning strategies that deliver sustainable competitive advantage ensuring the outputs of marketing (branding, websites, brochures, flyers, social media, etc.) are tailored to the customers' needs in the market segments in which the business leaders choose to compete.

The aim in the MPP is to identify sustainable competitive advantage. Faulkner and Bowman (1992) suggest that ultimately there is only one sustainable strategy – low cost focused differentiation – highlighting the importance of being different from competitors, remaining focused on how customers value this differentiation, avoiding distractions wasting time on so-called opportunities, and finally ripping out all unrelated costs continuously. I use this to channel the senior managers as they wrestle with strategy formulation. Similarly, the Ansoff Matrix (Figure B) is a useful tool with its reminder that market penetration strategies are more than twice as likely to succeed compared to new product development strategies or market extensions. Diversification is highly risky.

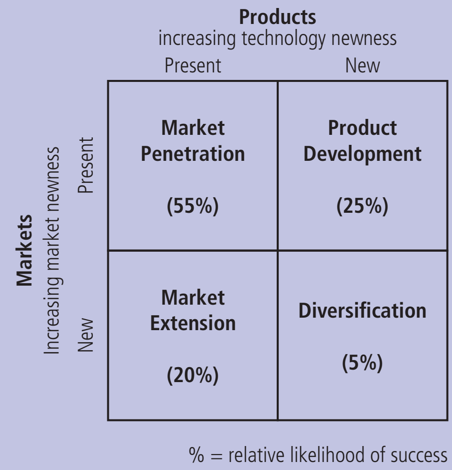

Figure B: Ansoff Matrix.

Using these approaches and the pointers from Figure 6.6 as a guide, senior managers can ask themselves what they should do in each key product/service to key market segment – the 4Ps (product, price, place, promotion), market share, operations, cost control, R&D, people, investment and working capital. By answering these pointers senior managers are creating the marketing objectives and strategies of Stage 6 and the actions of Stage 10.

Note that this must be driven from the top and not delegated to people further down the organization. It is the company's future and fortunes that are at stake.

Deep down, when they are asked, companies know the answers to the above questions. The leaders must step back from the day-to-day activities so that they can create the time to ask the question of themselves, so that they properly plan.

> Case Study C: The main board, including non-executive directors, of a multi-national industrial group were visiting a stand-alone subsidiary and meeting the senior management team who had transformed the business unit, tripling sales and increasing profits by a factor of ten. When the local MD was asked by the Chair what was the single most important change in the business, the reply was, 'Introducing the MPP'. The Chair noted that for a business with 80 employees, the business plan, tools and management understanding of customers and the markets were as advanced as would be seen in leading global players.

Now senior managers know where advantage lies and how to deploy it in the market segments they choose to compete in, they can use past results, market size, market share and market growth figures (if they have them) to consider what sales (and profitability) they can expect in each segment. This is Stage 7.

Senior managers also need to ask, 'What if…?' and create a contingency plan by exploring what are the key sensitivities to the success of the plan (Stage 8).

Case Study D: A small company processing building materials had used the MPP in a five-year plan which convinced investors to provide £4 million of loans and grants. Key was a sensitivity analysis which the management team switched to after a couple of years. Their prompt action gave the funders confidence to continue with the investment. At the end of the five-year period, the original forecast profits were realised.

Phase 4 (Stages 9 & 10) – Resource Allocation and Monitoring

Stage 9 is the preparation of the one-year budget. It never ceases to amaze me that, in the main, those companies that produce a business plan skip Stages 1-8 and go straight to Stage 9. Marketing directors and managers need to be more proactive in senior management meetings to ensure their voices are heard and promote the MPP rather than give ground to the typical finance director who traditionally advocates budgeting by using an internal perspective rather than a market-led one, which is what the MPP brings.

Stage 10 naturally flows from Stages 6 and 7. Here, objectives are granulated into action plans that are SMART – specific, measurable, actionable, realistic and time bound. A named person must be responsible for each action and held accountable at review meetings. The results of these actions feed back into next year's plan at Stage 3.

Arguably, future plans should not be too different. Many markets do not change considerably over time and employees lose confidence in management teams that exhibit knee-jerk reactions changing plans mid-course. This leads to confusion for staff and customers alike.

How Do You Integrate the Market-Led Plan with the Rest of the Organization?

Another pictorial way to consider the MPP is shown in Figure C. The MPP is shaded, as I argue it is the most important business pillar* as it is the only one that is actively looking outside the organization.

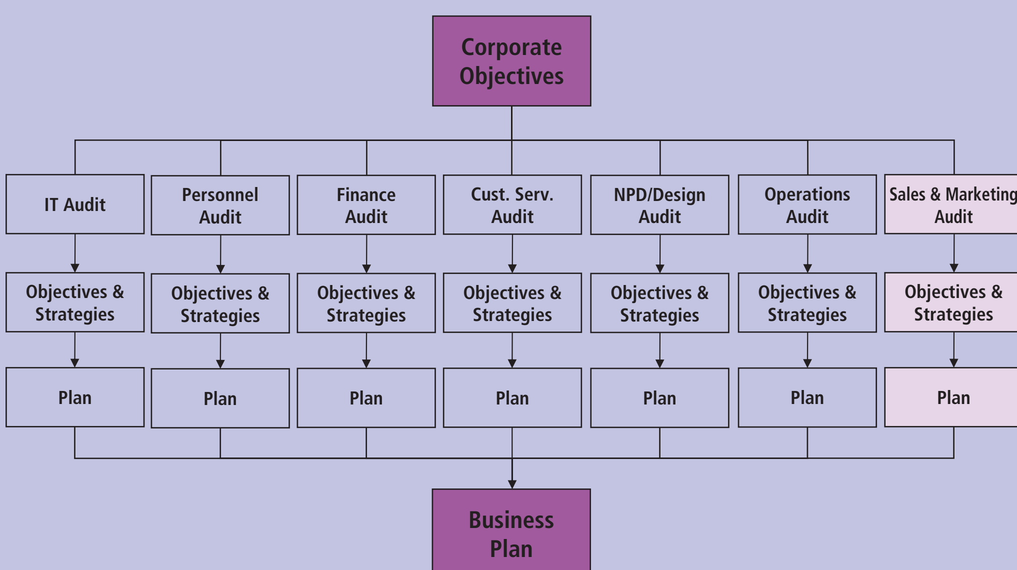

Figure C: The Business Pillars.

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* I use the metaphor of pillar in the sense of constructing something that is robust, e.g. a set of departmental plans (as pillars) that hold up the overarching corporate objectives.

When senior management teams reach Stage 7 in the MPP, i.e. agreeing the sales and marketing objectives and strategies, I encourage the head of sales/marketing to share the objectives and strategies with the heads of operations, design/technical, customer services, finance, HR, IT, etc. (if they are not already involved in the MPP). All these 'internally facing' pillars then need to undertake an audit to assess if the resources in their 'pillar' can meet the demand identified in the sales/marketing objectives. Each pillar then considers what objectives and strategies they need to deploy, which in turn becomes their departmental plan. The overall company-wide business plan is created by pulling together all the departmental plans. Of course, sense-making is applied along the way to ensure the company can afford to do everything in the plan and that the plan is feasible.

The heads of the internal pillars should consider 'performance objectives' and identify 'order winners and order qualifiers' (Slack et al., 2013) consistent with CSF in each key product/service to key market segment.

I believe in the adage that 'structure follows strategy'. Too many senior managers, particularly in SME – though large companies do this as well – fiddle with the structure, often re-organizing without a clear plan of where to compete. I advocate adopting the structure in Figure D, which follows the strategic process of Figure C and adapting it to the context of your own organization (note IT and HRM are often subsumed under Finance Manager).

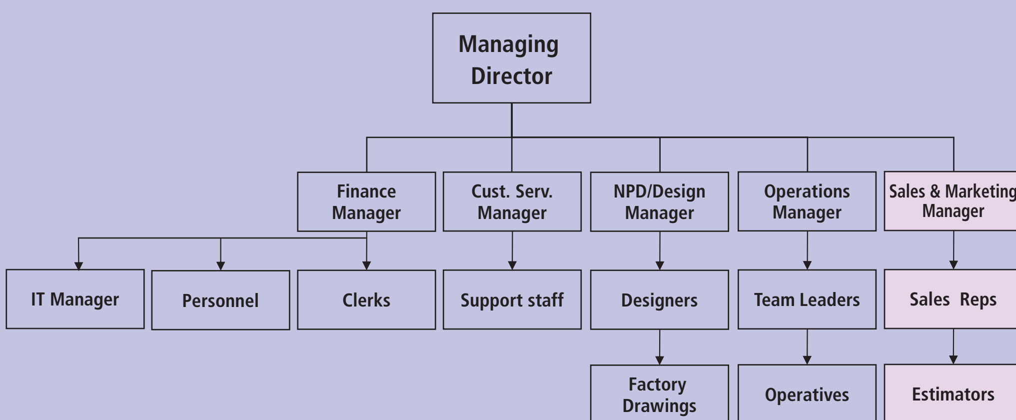

Figure D: Structure follows Strategy in the Business Pillars of typical SME.

Last but Not Least – the Review

You have a plan! Well done! But now you must bring it alive and ensure proper reviews. I advocate you creating your own version of Figure 14.3. Certainly, the full management team must meet every three months to review progress or otherwise and discuss what needs to be done to bring outstanding actions back on plan. In between these meetings, the managing director should be discussing progress of the key actions with the heads of departments so that matters are moved forward and that there are no surprises at the quarterly reviews.

Not Convinced yet that it Works?

On the LEAD programme, we work with business leaders to devise segment leading market penetration strategies and encourage them to broaden and deepen relationships with existing customers and to find similar new clients. We then assist businesses to implement the appropriate follow up systems to ensure success.

The above approach represents a complete mindset change and paradigm shift for the leader and their business. The inputs and outputs are based on facts and most importantly what customers think about their company allowing them to proactively plan their sales activities.

> Case Study E: The MD of a micro company employing eight staff and distributing components observes, 'We had unwittingly invested time and money dealing with an unattractive market segment where the customers did not rate us highly. We should have been raising pricing, minimizing promotion and cutting back on the organization. But we did not realize what our customers thought, or that our other products were so much more attractive for both us and our customers. It was an eye opener! We reassigned employees to focus on other segments, making us more profitable and competitive. We now win over seventy-five per cent of the jobs we quote for!
>
> 'The MPP is more than conducting research and making plans for the company. It affects the way you think in your working life. It has changed the way I do business for the better.'

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TONY MOORE

I was trained in marketing planning by Professor Malcolm McDonald and using the process spelled out in this book have achieved spectacular results throughout my business career with companies like Alfa Laval, Tetrapak and others.

This story, however, concerns a job I was given of turning around a small privately held, US glove manufacturing 'cut and sew' company that manufactured certified firefighting gloves. The company was heading into certain closure after ninety years of business and had, at one time, been a market leader in the US glove making industry. Now, however, it had become a dinosaur with outdated manufacturing processes, poor quality products and lengthy lead times.

In order to know where we were, our market and where we were headed, I began the strategic marketing planning process. I began to make the strategic plan containing market size, competitive analysis, SWOT analysis, product positioning cost of operations and all of the factors that I needed to know in order to develop this failing company.

I have to note here that before I began this process I had absolutely no idea about the structure, size and influencing factors that would affect this company as I had never been involved with gloves of any kind, let alone firefighting gloves.

Sales within the US were through a large distribution network of some 420 distributors that included around 10 per cent overseas sales. We were selling at 'transfer' or distributor prices but we were not selling to the end user. The market, we were in required expensive annual re-certification of our products to a very high NFPA standard (for US Firefighting gloves) and this was a very high cost way of doing business.

In completing the planning process, I used excellent and readily available market data available through various organizations involved with the firefighting market, and several other government departments involved with statistical data, which is always readily available, if you know where to look.

The Data Revealed Within the 'Strategic Plan'

Several things became apparent as I steadily went through the Market Planning process:

1. The market we were in was saturated with similar undifferentiated products.
2. Prices were depressed, through tough competition, with little room for increased margins.
3. The cost of annual re-certification was extremely high (a barrier to entry for all).
4. Deliveries were protracted and our quality was poor.
5. Our manufacturing was outdated – 'batch and queue' – and was highly expensive, incurring a 50 per cent turnover of unhappy sewing and production staff who had never had any increase in pay.
6. Our market share was 20 per cent and rapidly declining.
7. We were also in a very low cost industrial glove business that we were losing money on with each pair of gloves that we manufactured.
8. Our product mix included considerable overlap with our own products that made no sense.

We now had our 'Road Map' and the actions we were to take that emerged from the plan became obvious. Externally we needed to re-engage our distribution network to believe in our company and our products as soon as possible and this was important and urgent!

Internally, in order to do this, we had to reduce manufacturing costs, improve delivery times, and above all improve our quality. I also believed we had to create a product differentiation from our competitors, though that was important but not urgent.

I met our main distributors and shared with them my findings, explaining where we needed to focus if we were going to succeed in our chosen market. Normally, this information would be confidential, but time was running out and my plan required that our distributors remained loyal and didn't move to another manufacturer, which, as I found out, 30 per cent had already done so.

Implementing the Plan

In order to reduce our costs I introduced LEAN manufacturing, which had become obvious from completing the market plan that this had never before done in a US cut and sew glove manufacturing operation. I reached out to the Department of Economic Development who agreed to help me implement LEAN and together we completed the task in only four months. Prior to this we had a complicated production process that was not streamlined, with eighty-two production staff.

The company had an archaic 'peace rate' pay system that encouraged our sewing staff to rush their work in order to make any kind of living and this had led to our poor quality, since they had to work fast if they were to make any production bonus. I changed this system into a timed sewing system, as a part of a LEAN introduction that rewarded them more for getting it right first time over their sewing speed. This led to 'teams' working together to mutually benefit from production and quality bonuses instead of working only for themselves.

After implementation we had spectacular results: reduction of costs by 33 per cent, improved lead times, faster overall speed of production, better quality, and we managed to increase production with fewer staff.

I also shut down the industrial glove business, as imports were selling at less than our leather costs alone! This, too, became apparent within the plan.

A New Look and a New Pay Structure

Everyone in the company was on board with the positive changes we were making. The machines were freshly painted, the factory was cleaned (for the first time in decades), the production had a new fresh look, an excellent workflow system was laid out and we were now on track. In the planning process the 'peace rate' pay system had become highly visible as a negative to all of our staff. The fix was to link pay with overall production and not just pay for finishing each component, as it was prior to the change. I created 'cells' where finished pairs of gloves, coming off the line, were the base unit for production pay, and quality was measured at a higher rate for their bonuses over speed of operation. As part of LEAN we had re-timed every operation and created new timings, which they could all manage without rushing. If we also had resulting higher quality we would not waste money in re-manufacture. This new process led to a significant pay increase, which was covered out of the increased production efficiency and higher quality of finished goods. In other words we shared the win–win with all of our staff.

Threats, Now a Reality

When completing the strategic plan, I had identified two main threats, during the SWOT analysis. One threat was new competition from overseas and the other was a limited and fixed market size. Our market size had not changed in more than fifteen years and part of the threat analysis is the ability to be forewarned of a threat. This leads to the creation of 'opportunities' from these identified threats.

The threat of overseas competition became a reality very quickly when a brand new product from Pakistan entered our market: a glove with a much lower sales price and with higher dexterity than any in our market. This occurred just as we were gaining our market confidence back and could not have happened at a worse time. That's often the way in business, so you have to move fast! The result was that twenty per cent of our sales were lost in a very short time, leaving us with an urgent problem we had to solve.

Sharing the Problem

I wanted all of my production staff to understand the issue and the reality that would affect all of them if we continued to lose market share, in that the company would close down.

Moving production overseas was not a choice for us, since our quality had taken such an effort to improve, and our deliveries and agility to quickly switch between products through demand were far better than with imported products. Added to this the cost of transition to overseas production was not something we could now afford. I wanted to maintain a US production with more competitive products and an acceptable price that our market would choose over imported products.

I engaged the entire staff in my development of a new US-made certified firefighting glove in order to not only meet, but to beat our competition and to increase our market share as a result. This threat had now become an incredible opportunity for us but would not be easy.

Involvement in the Solution

Many times in many companies, production staff never see what the competition really is and thus have no idea what happens in the sales process, only that they are busy or slack week to week. I wanted them all to realize the nature of the problem so I laid out all of our competitors' gloves next to ours, then I showed them the cause of our downtrend in sales with the new imported product. I asked for their help with the fix and they all readily agreed.

I then focused on nothing other than to design a new, radically different, high dexterity, high quality US-made glove. My message here is to focus, focus, focus on the project at hand and do not allow anything to interrupt the 'fix' of the problem. I looked at a ski glove that was pre-curved, had incredible dexterity and other similar properties to a firefighting glove (a liner, moisture barrier and an outer shell).

I began the design process and piece-by-piece I created, with my staff's help, a new radically different product. When I had finished the design part of the process, I had to assess the manufacturing operation. I sat with each of the sewing staff to time their individual operation in the manufacture of our new product and this led to modifications of the design so that it would be easy to manufacture at high speed.

Spectacular Results

When we had finished the design and certification, we had a new product, new adhesive technology and a three-dimensional glove that no one in the US was able to make. We called the glove the 'Blaze Fighter' and when we launched it we had absolutely no cash for a big advertising campaign. I thought if the product is as good as we think it is then word-of-mouth marketing would have to do. We made eighty pairs and sent them out to our top dealers.

The results were spectacular: within six months we had sold a million dollars' worth of the Blaze Fighter glove alone and over the next twelve months we made another three million dollars in sales. The Blaze Fighter became the biggest selling glove ever in the American firefighting market and was taken up by the prestigious FDNY. Because we had involved our production staff in the development our costs were very low and the resulting profit was five times higher than any other glove we had made. We now had the biggest glove manufacturing operation in the USA with two facilities, not one as we had originally. The second was a prison operation where our costs were low and the staff never had 'Mondays off' or continuous sick leave.

A Strategic Marketing Plan Works

Had I not developed a focused strategic marketing plan, as I had been trained to do by Professor Malcolm McDonald, I would not have been able to make the numerous changes required to turn our operation around. The plan had a logical and analytical approach to what was required and became the road map for the way forward.

Each improvement and activity, we had to undertake, in order to become successful, was within the 'strategic plan' and sales, believe it or not, was not the focus. If you have the plan and you have followed the steps in creating it, then sales would follow.

Versatility

Each company I have worked with only looks at annual sales. They spend a few months going through opportunities, based on what their sales staff can see. Then they set a sales growth for the following year, based on very little factual knowledge. I have now used this planning process in a fragrance company start up, leading to becoming second in sales in the US fragrance market in the second year of operation. I have also implemented this planning process in a Fortune 500 Swedish company to implement 'Strategic Market Planning' in 30 countries. They too had the annual sales meeting to 'guess' where they would be in each following year. After the implementation of Strategic Market Planning, they were able to meet demands of their market and create many new markets for themselves.

These are excerpts from my autobiography,
One Of A Kind, Making It Happen available from Amazon