

# Business Plan Elements

**D**O YOU KNOW ANY small business owners? Have you ever thought about opening your own business? Do you have design ideas for new clothes but do not know how to turn that into a viable business? Learning the basics of new business creation and how products are marketed will give you the tools you need to become a successful business owner.



## Objective:



Explain how to select a location, determine target markets, and price and promote products.

## Key Terms:



demographics  
entrepreneur

product  
profit margin

psychographics  
target market

## Product and Business Planning

Various issues must be considered if you are considering opening your business or bringing a new product to market. Finding a location, defining your main customers, pricing your products, and promoting your products are some of the most important decisions you will make as a business owner.

## LOCATION

Selecting a location is one of the most important business decisions an **entrepreneur** (a person who takes on financial risk to start a business) will make, especially in retail establishments. The location can make or break retail establishments. For manufacturers, the location must have a reliable workforce and a business-friendly climate to be successful. Also, it must

be close to transportation systems (e.g., highways, railroads, and/or rivers) to move the product across the state, region, or country.

## Target Market

Before choosing a location, the business owner must identify the **target market** (the group of people to whom a company markets its products). The business needs to be located where a large population of the target market resides. For instance, high-end designer clothing lines will not do well in rural areas. They will, however, do well in Manhattan because many wealthy people live there. Wealthy people who love fashion would be part of the target market. For manufacturers, designers, and wholesalers, location is not dependent on the target market location. Whether a person is manufacturing clothes, furniture upholstery, or other specialty textiles, the product will be sold to retailers in an area with a high population of the target market.

Many factors influence location choice. For instance, the region, city, and state where the business is located must be in an area with a large population of the target market or near transportation systems. Also, the part of the city is important. Obviously, different areas in a city have advantages and disadvantages. Some areas are the downtown business district (typically the historic part of town), suburbs, neighborhoods, shopping malls, in-home, outlying country areas, and industrial zones.

## Building, Buying, or Leasing

Another choice involves building, buying, or leasing a property. Building a new building is the most expensive option, but everything will be exactly to the needs and specifications of the client. Buying a building is less expensive than building. However, the building may not have exactly everything to fit the needs of the business. As a result, it may require remodeling. Yet an existing building may be the right choice if it is the only option in the right location. Leasing or renting a space is the least expensive option, and it requires the least amount of capital for starting the business. Renting may be the only option in certain circumstances. For instance, if a person wanted to open a clothing store in a highly trafficked shopping mall, the only option is to rent a space.

## Analytics

Analytics can be used to help you make an informed decision. Various companies compile customer traffic numbers and retail sales figures for all areas of the country. These companies can assist the entrepreneur in finding out the ideal location based on customer traffic in the area, customer traffic in nearby stores, and how much these people are spending in different areas of a town. Once the target market is established and all the factors have been considered, the best possible decision can be made.

## TARGET MARKET

As mentioned above, a company's target market is a group of people a company markets their products toward. A target market can be defined in terms of **demographics** (the statistical data of a population, such as age, race, occupation, income, religion, education, or gender). Another option is for a target market to be defined by **psychographics** (the use of statistical data to determine the attitudes and tastes of a particular group).

A company needs to ask: "Who would buy my product and why?" The answer will give the company insight into its target market. After the company has an idea of who will buy its product, it should create a customer profile. In addition, the business should detail exactly the type of person who would buy the product, including demographic and psychographic elements. After determining the target market and detailing a customer profile, the company will be able to choose a location and offer products that fit into this market's needs.



**FIGURE 1.** Determining a target market will help a company offer products that fit its needs.

## PRODUCT LINE AND PRICE POINTS

A **product** is anything sold to market for consumption. Many product types are offered in the clothing industry (e.g., high-fashion, basics, high-end apparel, and low-end apparel). The product type must be determined before a product line can be created. A product line can refer to the whole line of clothing at a store, a type of clothing produced by a manufacturer, or a specific line of product (e.g., skinny jeans). The product line at a company will depend entirely on its target market and location. If the target market of a store is teenage females, it will typically stock trendy styles as well as basics. So the company may have a store brand for basics (e.g., T-shirts) and carry name-brand jeans, tops, and dresses.

A specific product line depends on the target market. A new line of jeans targeted at young, single, professional men would most likely be high-end and trendy because young professionals often are trendy and have disposable income.

Various factors must be considered when pricing products:

- ◆ The cost of production or the cost to purchase at wholesale
- ◆ Demand

- ◆ Competition
- ◆ The average market prices of other similar products
- ◆ **Profit margin** (the percentage of total sales that is surplus)
- ◆ Sales overhead

All factors mentioned play a role in pricing. However, the production cost or wholesale purchase price is the most influential. For example, if it costs a store \$15 per pair of jeans at wholesale, the store must price its product significantly higher to make a profit after factoring in the cost of the store, employees, and operations. Production cost is the most important for manufacturers and suppliers. A company that manufactures jeans may be able to produce a pair for \$5 after taking into account the cost of labor, building, machinery, etc. The company may sell that pair of jeans for \$10 to \$15 to a retailer.

Pricing products correctly is important. Too high of a price for a product of inferior quality will cause the company to have a bad image, resulting in decreased sales. In contrast, prices that are too high compared to competitors will cause the company to lose sales to competitors. A general rule used by many retail small businesses is to take the price paid for an item and to double it to determine the retail price point. Other pricing strategies used by retail and manufacturers are:

- ◆ Premium pricing denotes luxury and is priced at the high-end of the market.
- ◆ Penetration pricing is a strategy where prices start off low to gain customers and market share. Profit margin is low for this strategy.
- ◆ Skimming pricing involves starting at a high price and lowering it over time. This is especially prevalent in the electronics industry.



FIGURE 2. Pricing products correctly is essential.

## PRODUCT AND BUSINESS PROMOTION

Promoting a business includes advertising, publicity, sales promotions, and personal sales. Advertising is paid communication about the business and may include TV ads, radio ads, online ads, social media, newspaper, signage, billboards, etc. Publicity is free and includes articles written about the company. Sales promotions and personal sales will drive customer traffic, but this can be short lived. Customers looking for bargains may not return when prices are not “on sale.”

A mix of the above strategies should be used to be effective. Some strategies work better for different companies. For instance, newspaper ads may not be the best use of advertising dollars for a teenage clothing store because most teenagers do not read the newspaper on a daily basis. A better strategy would be for the company to advertise online with popular sites frequented



## ON THE JOB...

### CAREER CONNECTION:

#### Advertising, Promotions, and Marketing Managers

Advertising, promotions, and marketing managers handle all aspects of the advertising and marketing duties for companies. This includes creating advertising, gaining publicity, market research, and product pricing. According to the Bureau of Labor Statistics, you need a bachelor's degree for this position. The median pay is \$115,700/year, and the jobs in this field are expected to grow 12 percent in the next 10 years.

by teens. For manufacturers and designers that do not have a retail side to their business, promotion typically occurs at industry conventions, online, or by catalog because manufacturers could create product lines for multiple labels or brands.

The same strategies used for promoting a business can be used to promote a specific product. One especially common strategy for a specific product is to run a sales promotion. For instance, “buy one and get one half off” would be a good promotion strategy for jeans.

### Summary:



Many factors must be considered if you want to open a business or bring a new product to market. Finding a location, defining your main customers, pricing your products, and promoting your products are some of the most important decisions you will make as a business owner. A company needs to consider: “Who would buy my product and why?” The answer will give the company insight into its target market. After determining the target market and detailing a customer profile, the company will be able to choose a location and offer products that fit into this market's needs.

Pricing products correctly is important. Too high of a price for a product of inferior quality will cause your store to have a bad image, so sales will fall. Prices that are too high compared to competitors will cause you to lose sales to competitors. In addition, promoting a business includes advertising, publicity, having sales, and personal sales.

### Checking Your Knowledge:



1. List three factors that would influence location decision making.
2. What question should a company ask itself when determining its target market?
3. Explain the difference between advertising and publicity.

4. List three factors to consider when pricing products.
5. Explain penetration pricing.

## Expanding Your Knowledge:

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Schedule a time to interview a marketing specialist or manager. Be prepared with a list of questions to ask him or her based on what you learned.

## Web Links:

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### **Advertising, Promotions, and Marketing Managers**

<http://www.bls.gov/ooh/management/advertising-promotions-and-marketing-managers.htm>

### **Location**

<http://www.entrepreneur.com/article/73784>

### **Social Media Promotions**

[http://www.nytimes.com/2011/08/04/business/media/promoting-products-using-social-media-advertising.html?\\_r=0](http://www.nytimes.com/2011/08/04/business/media/promoting-products-using-social-media-advertising.html?_r=0)