Market Analysis and Supplier Support—Keys to success

A CorNu Enterprise Educational Product
Market analysis and Supplier Support—
Keys to success

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Credit Page

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How is this module organized?

We divided the Market Analysis & Supplier Support into five major headings:

1. Competitions & your competitive edge
2. The customer/client base
3. Product & sources of supply #1
4. Product & sources of supply #2
5. Market analysis

Within the module, the material is divided into these headings:

Introduction
How to use this section
New businesses
Existing businesses
(Module content)
Uses
Summary
Celebrate

Celebrate!

It is important that you recognize your achievements and celebrate each small step. Phone some friends and celebrate it. We will offer you opportunities to celebrate at the end of each part of the module. Have fun with them. We had fun creating them for you.
Suggestions on how to use this module

This module is organized so that you decide:

- In what order you want to access the various titles
- What you want to ignore
- How many times you want to revisit the material

Just return to the Table of Contents and click on what you want to read or review again.

The six-pointed star

We have depicted business and a business plan as a six-pointed star. Each part of the star represents a major aspect of your business and an important element of a business plan. Together, they form a complete view of your business and your business plan.

We have carried this star throughout all the BizBite Consulting Group products and all the modules.

As each new section is begun or completed, the appropriate part of the star is colored and the rest of the star is colorless. This may help you to see how a specific topic relates to the whole business and to remind you that it is part of the whole.
Market Analysis and Supplier Support
Keys to success

Glossary
Each term that is used in this section is defined in the Glossary of Terms (at the end of this module). You will notice that the first time it is used it is coloured green in **Bold Italic**.
Introduction

The major focus of this major section of the *business plan* is on the business *offerings* of your business. Your business offerings may include only services or a combination of both products and services.

Complete this section before you begin the marketing or the financial parts of the business plan.

Think seriously about completing this business offering section first

By the time, you are finished these individual sections (listed below), you will be able to decide on your business offerings or know if you need to make changes in your present business offerings.

The information and insights you gain will be utilized repeatedly while you are designing a *marketing plan* or developing a financial plan (two important elements of a business plan).

Although this major section is labelled business offerings, it is really about *market research*. You are going to research the market in four different ways.

Each research area will provide you with a view of the marketplace that will help you in understanding it and assist you in making decisions about your business within the context of it.

You will be better informed and, hence, likely more comfortable with your business and your business offerings.

While carrying out your market research, answer the following three questions:

1. How does my market research support what I am selling and to whom I am selling it?
2. What kind of solid contacts did I make during my market research? (Name them)
3. How well connected am I within my particular industry?
The four areas are presented in individual sections and also are a part of the business plan in the business offerings section:

1. **The competition and your competitive edge**
   In this section, you will research your competition and discover your competitive edge.

2. **The customer/client base**
   This section will assist you in developing a customer/client profile.

3. **Product and sources of supply**
   Here you will research the various sources of suppliers and their services to you and how they could help you market your offerings.

4. **Market analysis**
   Here you will research the market trends within your kind of business, market segments, product categories, or product mix.

You decide the order that you wish to use to complete the various components of the business offerings. Regardless of the order, you will likely discover that you will return several times to completed sections because new information will influence previous decisions.
1. The Competition and Your Competitive Edge

Introduction

This section of the *Market Analysis and Supplier—Keys to success* deals with analyzing your competition or rivals and determining your business competitive edge. Whether it is a new business or a mature business, one of the uses of the business plan is to maintain awareness of the marketplace and the position of your business within it.

These factors are constantly changing. Without having this knowledge, you can’t properly direct the business. It would be like trying to navigate by the stars when you can’t see the stars.

To assist you in analyzing your business and its market position and competitive advantages, answer the questions below. If not all the questions are useful for your business; write questions that are more meaningful.

In this section, you are going to research and analyze your competition and, from that information, you will make decisions about how you will compete with them.

- **What will you do that will make you stand apart from them?**
- **What do you already do that make you stand apart from them?**

This section is divided into two major sections:

1. The competitive position of your competition or rivals  
   (How strong are they, who are they?)
2. Your competitive edge
How to use this material

You may have already researched the following topics: your client base, the financial feasibility of your business offerings, your market, and your target market. If not, continue with this section and then move on to those sections.

You may find information in this section that fits other sections. If so, either write a note in this section (using a different colour) or copy it into the appropriate section.

You may find information in this section that changes the other sections.

Wait until you have completed this section before designing your marketing plan and financial plan. There may be valuable information in this section that will influence both these other plans.

New businesses

A new business will not have any historical data to work with thus; it will usually be relying on data obtained from sources such as:

<table>
<thead>
<tr>
<th>Government agencies</th>
<th>Industry publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anecdotal information on the local market</td>
<td>Suppliers</td>
</tr>
<tr>
<td>Customers/clients</td>
<td>Colleagues</td>
</tr>
<tr>
<td>Library</td>
<td>Telephone book's yellow pages</td>
</tr>
<tr>
<td>Industry Canada Online (Strategis)</td>
<td>Trade and industry magazines</td>
</tr>
<tr>
<td><a href="http://www.strategis.ic.gc.ca">www.strategis.ic.gc.ca</a></td>
<td>infoCanada email</td>
</tr>
<tr>
<td>See the Appendix for more sources</td>
<td><a href="mailto:contactsinfo@contactsbc.com">contactsinfo@contactsbc.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.contactsbc.com">http://www.contactsbc.com</a></td>
</tr>
</tbody>
</table>

As you find specific names, modify this list. If you find other sources, add them to this list.

Often, most of this information is averages of information compiled across the entire nation or a region.

There can be great differences between local statistics and national or regional statistics. The demographics can vary greatly even within small geographic areas. Therefore, it can take time for you to be satisfied that the data derived is relevant to the market that it will serve.

For the new business, researching and analyzing your competition may be a difficult task. However, you need to know your competition. Remember the adage 'know thy enemy.'
Complete this exercise before you make your final decision about what offerings you are going to market. There is no need to be marketing the exact same offerings as the business down the street in the same town.

If it is the same line of products, how are you going to market them differently from your competition? If you had known what your competition's offerings were, would you have stocked the same brands, the same quality, or offered the same service? Would you have entered business at all?

It is unlikely that a new business will go bankrupt in a few weeks or months. So, research your competition.

**Existing businesses**

As an existing business, you need to know constantly what your competition is doing and what are their offerings before you make any decisions about adding, expanding, or curtailing current offerings.

If you are doing this research once a year, it is not too often and maybe not often enough. Examine your previous research and then update it. These sample questions should trigger your questions.

**Sample questions**

- Are there other players in your field?
- Are there new trends?
- Are there any passing trends?
- Are others marketing their offerings differently?
- What is your market share?
- Has the competition's profile changed?

Check the list of possible sources above or check the resource list in the Appendix on the Bookmarks or Thumbnail to the right of the screen. Add to the list or list specific names.
The competitive position of your competition or rivals

Below is a list of questions that may help you to research your competition or rivals and their position. You need to customize the questions. You might substitute specific names (your business name or your competitor's name) into the questions. You might answer the questions for each competitor or type of competitor. By customizing the questions, it likely will lend focus to the process.

The answers for the following questions come from a number of sources (check the list above).

Relate the first three questions to your position in the market while the rest of the questions will help to develop a competition profile.

1. Who are the leaders in your industry in your city, province/state, or nation? (Leaders may be people or companies.)
2. What share of the market does your business enjoy?
   It is useful to know the estimated total potential of the market for the products and services of the company. Government and industry publications are good sources of this information. They will often list the major companies in the industry and what share of the market that they have nationally, regionally, and sometimes, even locally.
   This information is useful in assessing what share of the market the existing business or the new business could reasonably expect to achieve. In some cases, the analysis may reveal a grossly over-supplied market.
   A person intending to start a new business may need to rethink the advisability of doing so in that particular market.
3. In terms of volume, industry awareness, and prestige, where does your business rate in importance (your city, geographic region, province/state, and nation)?
   This information is usually available from government and industry publications.
4. Traditionally, from what market segments do you derive most of your business?
5. Who are your direct competitors? (Name them)
   This could be in your immediate location, town/city, geographic region, province/state, nation, or world. It will depend on how large your market is.
6. Who are your indirect competitors? (Name them)
7. Describe your competitors. (Direct and indirect)

1. What is their size?
2. How many are there?
3. How long have they been in business?
4. What are they doing to get business?
5. What are their offerings price ranges?
6. How do they price their offerings?
7. Describe their position in the market (high-end, low-end)
8. Do they have a published business description?
9. Analyze their business strategy.
10. Who are their markets?
11. Who are their target markets?
12. Describe their reputation
13. Where are they located?
14. What sort of facilities do they have?
15. Who are their major customers/clients?
16. What are their strengths and weaknesses?
17. What are they good at, what could they do better? What are their advantages and disadvantages?
18. What services are they offering?
19. Is their quality of service up to standard?
20. Do they offer such services as guarantees, warranties, or rebates?
21. How do you think they will respond (or are responding) to your entrance into the market?
22. Describe their market segment (income, age, geographic area, sex, occupation, socio-economic activities)
Once you have collected the answers to these questions, develop a profile of the competition. (Direct and indirect)

A profile is a summary and may be written as a paragraph, a series of paragraphs, or a list of statements. It will capture your research into a meaningful description of your competition. You may need a profile for each of your direct or indirect competitors.

Write a statement or series of statements that depicts your position in the market.

Save this research data in a file on your computer or in your filing cabinet.

These competitors' profiles and your market position belong in your business plan.

**Your competitive edge**

Once you have an understanding of your competition (direct and indirect), you can analyze them and figure out how you can best compete with them.

These questions will assist you in this process. What other questions can you think of others that will help you? You may want to customize the questions by adding in your business name as this may help you to bring focus to the process.

1. What geographical strategic advantages does your business enjoy?
2. What are your operational cost advantages?
   
   A key factor in starting a venture may be that profits will be enhanced because of operational advantages such as:
   
   • The location enjoys lower taxes
   • Unique sources of supply
   • Unique manufacturing processes

The purpose of the next five questions (3, 4, 5, 6, & 7) is to provide the opportunity for you to be introspective about how your business will relate to the market and how it will be perceived.

3. What are your strengths and weaknesses?
   
   You will need to take advantage of your strengths and either ignore the weaknesses or turn them around.
4. What opportunities are there? What threats do you have?
You will need to take advantage of the opportunities and decide how you will avoid the threats or work around them.

5. What are your business areas of specialization? (Provide a specific answer)

6. What are your business unique areas of competency? (Provide a specific answer)
   Alternatively, what is your business' unique selling proposition (USP)?

7. What makes your business different from others in the industry (city, province/state, or nation)? (General answer)
   • What can the competition do better than you can?
   • What can you do better than they can?
   • What can you give your customers/clients that the competition does not?
     (Better service, guarantees, delivery)

8. Why would your potential customers/clients buy from you instead of your competition?

9. What prices are you charging and why do you charge these prices?

10. Identify any gaps in the marketplace or offerings being marketed.
    • If you are offering a service, can you see ways of doing things differently?
    • If you are offering products, can you add services?
    • Is there a place for opening up a new market sector?

This is part of the process of differentiation. It is part of defining what style the business will be and how it will conduct itself in the marketplace.

The business style is a term used to describe the sum total of how the business functions and how it presents itself to the market. The variations of 'business style' can be extreme and complex.

However, there can be major differences in the internal and external policies of these companies—the way they merchandise their products and the way they market their companies.

So, business style and differentiation are related. You could say that business style is the expression of the various ways that a company differentiates its products, services, and the business itself from the competitors in the market.

An example
All of these department stores have many products and services that are similar: Sears, The Bay, K-Mart, Costco, and Wal-Mart
Now you are ready to answer the following question:

What is my competitive edge in my market?
Write out your answer in paragraphs or point form.

Place your answer in the Business Offering file.

Keep your answers to these questions in a file on the computer, filing cabinet or in the Appendix of your business plan and in this manner you can review and update them at another time.

**Uses of the research**

There are several uses for this research process: competition and your competitive edge.

1. From this process, you will be able to make some decisions about how you will market your offerings that will differentiate you from other similar businesses. This analysis will be used in your **marketing plan**.

2. You will be able to project why customers/clients will prefer your services to those of the competition. This will enable you to hone your offering mix.

3. It may help you to determine which offerings you should be marketing or what quality of offering you should be marketing.

4. It will give you a better understanding of your competition: 'Know your enemy.'
Summary

In this section, you have researched and analyzed your competition. You should have a very good understanding of them now and their place in the market.

In this part of the module, you analyzed your competition's advantages and weaknesses.

You have settled upon the market position of your business and selected its competitive edge.

You have made decisions about how your business will fit into the marketplace and how you will target your business in it.
Celebrate!!

Celebrate the completion of this first part of the module
2. The Customer/Client base

Introduction

In this section, you are going to find part of the answer of your offering mix, deciding on the customer/client base, and describing your various market segments.

An offering mix is a combination of:

- Knowing how many market segments you are going to target
- Describing each of the market segments
- Knowing how many kinds of offerings will be needed to meet each of those market segments (This will be completed in the financial feasibility section)
- Determining what quality of offerings is needed to meet each of those market segments. (This will be completed in the financial feasibility section)

Researching your customer/client base is one of the most important aspects of your business. You may think that you know who they are; what they like; what service they expect, and many other facts about them. However, you need to research them either to confirm what you think you already know or to find out about them.

You must ask three important questions in relation to your customer/client base:

You must ask three important questions in relation to your customer/client base:

1. Are you looking for customers/clients that would be right for the offerings that you already have on hand or plan to have on hand? This is placing the offering first.

2. Are you looking for the offerings for the customers/clients that you already know? This is putting the customer/client first.

   In this instance, you may already know what kind of offering you want to market but need to know from your client base what quality of offering they require.

   **For example**

   You want to sell sports equipment. However, you need to know from your client-base what kinds of sports equipment they want or need; what price ranges they will buy, and which brands they will buy.
3. Are you looking for the right quality of offerings for the customers/clients in your market region?

The answer to the above questions will determine how you will research your client base.

_How to use this material_

The customer/client base is part of the business offering section of the business plan. It is part of the market research, which you are doing concerning determining or reassessing your business' offerings, and in preparation for writing a business plan. Utilize this information when you design a _marketing plan_ and write a financial plan: elements of a business plan.

The other sections that belong with business offerings are:

- Competition and your competitive edge
- Product and sources of supply
- Market analysis

_New businesses_

A new business will not have any historical data to work with; hence, it will usually be relying on data obtained from sources such as:

- Government agencies
- Industry publications
- Anecdotal information on the local market

For more sources, you should return to _The Competition and Your Competitive Edge (New business)_ . Often, most of this information is averages of information compiled across the entire nation or a region.

There can be great differences between local statistics and national or regional statistics. The demographics can vary greatly even within small geographic areas. Thus, it can take time for the business to be satisfied that the data derived is relevant to the market that it will serve.
Existing businesses

An existing business has the advantage of having historical data. It also has a great deal of local knowledge about the market it serves. However, every time a business plan is prepared, it is important to go through the same process. It is important to:

- Test the current offerings mix
- Examine and consider new offerings that may be available or offered by competitors

An existing business will decide at regular intervals (yearly business plan process) whether to:

- Add new offerings
- Expand, curtail or eliminate current offerings

You likely have already answered the three questions listed in the introduction. Possibly, you did not look at it like this before. Are you comfortable with your previous decisions? If not, how can you modify what you have been doing?

As an existing business, you already have a profile of your client-base. If you do not have a written description, you need to do that and place it in your business plan. If you have a written description, then you need to validate your client base to see if there are changes.
Who are your customers/clients?

You need to be able to describe your client base. However, first you need to research them. Here is a sample of questions that you can use to begin the research process. You may find that you have several grouping (or *market segments*) of customers/clients:

If you do have several market segments, you may decide to answer the questions for each segment. This research will be useful when you decide what offerings you will market, what quality of offerings you will be able to sell, and how to market your offerings.

There are 16 questions listed below. You may have other questions or you may need to delete or change some of them to fit your business. Try and customize them to fit your needs by adding real names.

Some of these questions will help determine your market segments. Other questions will provide the information that will describe these market segments.

**General information about the customers/clients**

1. Using general categories, identify the customers/clients

   **For example**
   - Public, wholesalers, retailers, catalog buyers, contractors, government, institutions, organizations, commercial, industrial

2. List them by name, potential size, and order of importance to your business
   (If you can’t name them, give a representative sample to show type.)

   **For example**
   - Age groupings, income ranges, married/single status, special interest, and activities
   - Wholesalers, retailers, commercial, industrial, government, institutions, manufacturing representatives

   Estimate the number of people or businesses in each category listed above and estimate the dollar purchasing potential for each category.
Specific information about the customers/clients or market segments

1. Locate where the customers/clients are geographically.
   This will help decide how you can reach them (mail, Internet, catalogs, flyers, TV, or radio).

2. In what kind of climate do they live? How does this affect their buying?

3. Where do they currently shop or from whom do they purchase?

4. Estimate how much income they have to spend or what budget do they have.

5. How and when do they pay?
   For example
   Cash, credit card, debit card, payment plans, or 30/60/90 days after being invoiced

6. What will the customers/clients buy?

7. Who does the buying?
   For example
   Males, females, husbands, wives, children, teens, seniors, young married couples, middle-age people

8. When will customers/clients buy?
   For example
   Seasonally, holidays, special days or holidays, weekends, sales, or tragedies

9. What kind of transportation do they have?
   For example
   Personal vehicles, bikes, scooters, motorbikes, public transportation, walking, or business vehicles

10. Describe their socio-economic status.
    For example
    Cultural considerations, lifestyles, kinds of residences, sizes of families, and income ranges
    This information will help you to determine the quality of product, to price it and, perhaps, to assist with the design of it.

11. Within my range of offerings, what will each group buy?
12. What quality of offering will sell?

For example
Superior quality, a better price than the competition, durability of offering, consistency, and reliability of offering

13. What services must be provided for the product offerings?

For example
Warranties, guarantees, rebates, delivery, or installation

14. What are the key psychological and social influences that will determine buying?

Once your research is finished, you will be able to determine how many and to which market segments you are going to market.

Now, write a client profile in a paragraph or in a series of statements that summarizes the information that you collected about each market segment.

The client profiles for each market segment belong in your Business Offering file. Place the research in the business plan Appendix or file it (in your filing cabinet or on the computer). You will need to refer to this research again before writing your next business plan and marketing plan.

When you complete the Financial Feasibility of Your Business' Offerings section, you should return to this part in your business plan and add the following information for each market segment:

** Proportions of revenue
** Profits contributed
** Expenses used
Research tools

You can use a number of research tools to research your client base:

Uses for this research

There are several uses for this information:

1. To make decisions about your offerings (what offerings, quality of offerings, kinds of offerings, style of offerings)
2. To set the price of the offerings
3. To determine your target market prior to designing your target marketing plan
4. To design your marketing plan
5. To write a financial plan

Summary

In this section, you have researched your client base and written a client profile or a series of client profiles. You may have decided who your client base is.

Did you discover information that will change or modify any of the other parts of the business offering section of your business plan?
Celebrate!!
3. Product and Sources of Supply—part 1

Introduction

The Product and Sources of Supply section is divided into two parts because of the length of it. In part 1, there are three major subheadings: the supply chain, the manufacturers' profile, and product mix. In part 2, there is one major subheading, the suppliers' profiles. You choose which one you wish to begin.

Likely, this section is not one that people who offer only a service will find useful. However, if your business is working with people who are trading with products and sources of supply, then you might find this a useful section to read. Indeed, you may gain a better understanding of your client and their business.

Product and sources of supply is part of the business offerings element of your business plan. It is another part of market research.

Most people starting a new business have some knowledge of the business and the industry. Frequently, this is because they have worked for another similar business. Often, the desire to start a business is prompted by the desire to be his/her own boss or, perhaps, implement a new idea or approach to the market.

These people often know what offerings they want to market. They know what their service will be, what quality of product will be handled, and how they want to market it. They may know what wholesaler from whom they intend to buy their product line.

However, likely, they should validate their preliminary decisions.

This section focuses on the product, product line, and product mix.

For example
The various price ranges, the various brands, the quality of various brands, product liability, product reliability, cost variation, or the various wholesalers and the services they provide.
Consumer products can be divided into four kinds:

<table>
<thead>
<tr>
<th>Convenience products</th>
<th>Shopping products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staples</td>
<td>Customers/clients are either comparing prices or looking for quality and suitability.</td>
</tr>
<tr>
<td>Impulse products</td>
<td>The products must be right; perhaps brands are important.</td>
</tr>
<tr>
<td>Emergency products</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specialty products</th>
<th>Unsought products—these products need attention through promotion.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensitivity to price is likely low.</td>
<td>They may be new products, or products that are often needed (gravestones, life insurance).</td>
</tr>
</tbody>
</table>

Into which category does your business fit?

**How to use this material**

The product and sources of supplies is part of the business offering section of the business plan. It is part of *market research* to determine or reassess your business' offerings and to prepare for the business plan. Utilize this information when you design a marketing plan and write a financial plan.

Several other sections are included in this market research of the business offerings. They are:

- **Competition and your competitive edge**
- **The customer/client base**
- **Market analysis**

It likely does not matter in which order you work through these sections. You probably will need to revisit them several times before you make your final decision of your offerings.

All the decisions that you make regarding product, product lines, and sources of supply should be placed in your Business Offering file under a heading called 'Product and Sources of Supply' or a similar title.
New businesses

As indicated in the introduction, you may already have some ideas of what products you want to handle. However, before making the final decision, you need to validate your feelings. Base your final decision on the research of the competition, your intended client base, and the financial feasibility study.

Existing businesses

You already have an existing product line. You have established wholesalers, transportation systems, prices, and warranty programs. You know the suppliers' dealer program policies, pricing structures, advertising programs, and warranty policies.

Nevertheless, you likely need to check this information again to ensure that you are buying what your customers/clients want or need from the wholesalers that give you the best price and service.

Research process

You may have completed other parts of the market research. You may have decided how your business needs to be segmented, differentiated, and positioned versus the competition.

This section will assist you to:

1. Research sources of supply that will support the way in which you have decided to segment, differentiate, and position your business

2. Research and assess product lines

There are many factors to consider when choosing product lines and suppliers.

You can begin your research by gathering the necessary information from available industry publications, government, the Internet, or similar businesses in other markets. Refer to *The Competition and Your Competitive Edge* (new businesses) for a list of sources.
Procure further detailed information from all the suppliers. In some cases, acquire some product samples. It is a very good idea to visit product manufacturers and distributors in order to get to know the people with whom you may be dealing and, as much as possible, about how the companies operate. It is important to know the method of distribution of each product manufacturer.

In the following discussion, we will examine the factors that need to be considered when selecting product lines and suppliers.

For example
Would your business be dealing directly with the manufacturer?
Would your business be dealing with a national or regional distributor?
Are there buying groups handling the products?
What would be the advantages or disadvantages of belonging to those buying groups?
The supply chain

Before proceeding further, we should discuss how products are normally distributed. You need to know how your products are distributed using the data provided below to assist you in your research.

This diagram is one example of a supply chain. Where does your business fit in the supply chain? Your answer will determine how much research you will need to do.

In addition to these general classifications, there are buying groups and franchises. Depending on their size and geographic scope, buying groups and franchises may qualify as master distributors, distributors, or wholesalers.

The buying group or franchise may appear (in some cases) to have a slightly different price structure but, in reality, they are really on the same level as others in their volume classification. This is because manufacturers allocate a certain amount of their gross margin to support distributors at various levels and a certain amount of gross margin to support advertising and promotional activity.
The distributors and wholesalers at each level are allotted a piece of that *gross margin (GM)* on a declining scale. Each may choose to allocate that gross profit margin differently according, to the amount of services their customers require.

*For example*

A buying group or a franchise may require specially designed promotional materials and advertising programs to support the sale of their privately labeled products.

If the cost of this is borne by the supplier, that cost will be built into the price of the product and the price to the dealer will vary accordingly. This is because there is only a certain amount of gross margin generated from sales at each level of distribution.

The supplier at each level needs to be able to justify to similar customers that they are receiving fair and equal treatment based on the services provided.

In theory, the price on a private brand product line to a buying group, franchise or a chain of stores can be lowered substantially if no costs for advertising and promotion are built into the price.

The supply chain as illustrated above will not be the same for every product and it will vary with the geographical area that a company serves. The distribution chain also changes over time. A manufacturer may go through a stage where it is not cost effective to supply the necessary field services to the end users of its products. Then, as greater participation in the market is achieved, some intermediate levels of distribution may be phased out.

It is important for the new business or existing business to be fully aware of the distribution structure of the companies with which they are dealing. It is also important to be aware of how the structure may be changing. Knowing this can have a major effect on future business planning.

**Summary**

Before carrying on with the next part, you should describe your product line's supply chain. You may consider diagramming it similarly to the sketch at the beginning of this part. This could help you to determine your research for this section.
Manufacturers’ profile

Refer back to the supply chain and you will notice that the manufacturer begins the supply chain. Therefore, it may be appropriate for you to begin your research of your product or product lines with the manufacturer.

The *market* profile of the manufacturers and the *products* your business handles are important. You need to know your various manufacturers' profiles even if you are not directly purchasing from them.

Read the following information and then research the various manufacturers whose product lines you expect to be carrying. It is better to learn about the manufacturers before you purchase any products from them.

Three topics that should be included in your research about manufacturers are:

1. Instant customer recognition
2. Cooperative advertising programs
3. To either handle a name brand or not

Think of these topics as a bouquet of flowers. Each topic is a separate flower but they form an integral part of research about the manufacturer's profile.

**1. Instant Customer Recognition**

Nationally known and well-advertised products will often have instant customer recognition. You could say that the products would sell themselves because the customer already accepts the products and the standard of quality or performance they represent.

Describe the instant customer recognition programs of the various manufacturers of your product lines.

If there is a choice of manufacturers for your product line, which one will you choose? Why will you choose them?

How will their instant customer recognition programs assist you in your business? How will your customers/clients benefit from these programs?
2. **Cooperative advertising programs**

Large national companies usually have good cooperative advertising programs to support dealer costs of local advertising to tie in with the national advertising programs. This may sound good to the new business or small existing business, but the negative side of this is that products promoted in this way are often seen as commodities by the consumer. Such products are highly price sensitive.

In addition, the *gross margin (GM)* realized on the regular selling price is usually low and is controlled by the manufacturer. When the manufacturer launches a national promotion, *gross profit margins* may be driven even lower in spite of special promotional, pre-sale offerings from the manufacturer. Furthermore, the business may feel that they are forced to participate in the promotions whether they want to or not. There is no exclusivity with this type of product. There may be dozens, if not hundreds of businesses, in your market handling the products.

Describe the various manufacturers' co-operative advertising programs.

- If there is a choice of manufacturers for your product line, which one will you choose?
- Why will you choose them?
- How will the co-operative advertising program assist you in your business?
- How will your customers/clients benefit from these programs?

3. **To handle a name brand or not**

Your business may decide to handle product lines that are not major nationally advertised brands.

- These products may have unique features of quality and performance.
- They may not be generally available in the business' chosen market area.
- The manufacturer may offer some territorial exclusive to its dealers.

A business may not enjoy the same volume of sales handling this type of product line; however, the gross margin on the selling price is usually higher.
There are advantages and disadvantages to handling 'name brand' and national advertised products. They are sometimes seen, to coin a business phrase, as 'high volume, low gross' products. This means that they tend to attract sales volume, but they yield a low gross margin on selling price.

However, if handling the products raises the profile of your business, attracts customers, and allows the business to generate enough gross margin to offset a substantial portion of the business operating expense—it may be worth sacrificing control over the marketing of the product. Below are some questions that can help you in your research and decision-making.

1. Do any of the manufacturers offer a territorial exclusive to its dealers?
2. What are the advantages and disadvantages of carrying 'name brand' or nationally advertised products?
3. What are the advantages and disadvantages of carrying non-national advertised products?
4. Which route will your business use? Why have you made this choice?
5. How will your decision benefit your business?
6. How will your decision benefit your customers/clients?

**Summary**

Before moving on to the next part, you should summarize your research by describing the market profile of your manufacturer. You have researched and made decisions about these topics:

- Instant customer recognition
- Cooperative advertising program
- Handling or not handling name brands

Your summary should reflect your answers and decisions. Place your summary in your Business Offering file and file your research either in your filing cabinet or on your computer. Date the research. You will need to refer to this research and your decisions when you design your marketing plan.
Product mix

In many businesses, the product mix is a very important consideration. It is often not a particular product or product line that results in a business being profitable. Rather, it is the way all of the product lines carried by the business and the product mix complement one another that result in a profitable business.

Complementary or accessory product sales are often as important or even more important to the profit of a business. These products often yield much higher gross margins compared to the high profile 'brand name' product.

For example

The nationally advertised 'brand name' product may have brought the customer in the door. However, by offering the customer a choice of the 'brand name' product and other competitive products with different or specialized features, the sales of all products are enhanced.

In the case of a tool or a machine, some accessory sales might be:
- Attachments
- Lubricants
- Adapters to interface with other tools
- Replacement parts
- Cleaners
- Protective covers

In the case of a clothing item, like a suit, accessory sales might be:
- Coordinated shirts
- Ties

In these two examples, the machine or the suit may have been sold at a very low gross margin to meet advertised competition. Having a good selection of complementary accessory products and a salesperson who can effectively present these options to the customer is very important. It will often determine whether the business is profitable.
The point of the foregoing discussion is to emphasize how important the product mix is and how important suppliers of complementary or accessory products are to the success of the business. Every business and the market it serves will be different. The product mix is so important to business success that it should be regularly reviewed.

1. What is your product mix? Alternatively, what will your product mix be?
2. List the product mix for each major product or group of products.
3. Why have you made this decision about your product mix or product mixes?
4. How will your decision benefit your business?
5. How will your decision serve your customers/clients?
6. Who will your suppliers be for the various aspects of your product mix?

You may need to review your various suppliers before making your decision concerning the complementary accessory products that you require for your product mix.

Summarize your research of the product mix and your decisions. Place the summary in the product and sources of supply section of business offerings.

- Describe product mix or various product mixes
- List the suppliers and their pertinent contact information

File the research either in your filing cabinet or on your computer. Date it for future use.

Remember that you may need to return to this part to reconsider your decisions as you move through other parts of this package, or even this section.

Did you find any data that will change or modify any of the other sections of the business offering part of the business plan?
Celebrate!!

I am here to help you celebrate the completion of the third part of this module.
4. Product and Sources of Supply—part 2

Because the product and sources of supply section of the business offerings is very long, therefore, we have divided it into two parts. If you began with part one, you have completed the supply chain, the manufacturer's profile, and the product mix.

This part has one subheading: the product, and source of supply.

Supplier Profiles

You have researched the various manufacturers with whom you expect to be doing business either directly or indirectly—now it is time to research the other suppliers. You need to know who they are and how your business fits into this chain.

Let's review the supply chain again. We have modified it to indicate the several layers to this supply chain and to show the kinds of suppliers there may be. We suggest that you modify this diagram to fit your business' supply chain. Depending on your specific supply chain and your place in it, you will need to decide which ones to research.

For example

- Are you as a dealer or a wholesaler?
- How many kinds of suppliers are above you and, what is their relationship to your business?
- How will each influence or affect your business?
- How many are there below you and, how will you influence them?
To assist you in your research of the various kinds of suppliers, we have divided the topic into nine areas. These topics will assist you in your research of each supplier or each kind of supplier. As you complete each topic, summarize your research.

An eight-pointed star can represent these nine areas with one area in the centre (to make the ninth area).

1. **Distribution structure**

Your awareness of the distribution structure of your supplier is important and a business should examine the following questions:

1. What is the chain of distribution from the manufacturer to the dealer for your product mix?
2. Has this changed over recent years and, if so, how has it changed?
3. Will the method of distribution be the same five years from now? If there is a change in distribution structure, how is it likely to affect your business?
4. What is the growth trend of the product line in the market? Is it expanding or declining?
5. Are there other questions that you need to ask?

Apply these questions to each supplier or kind of supplier. Summarize your answers to these questions.
2. Local competition and product abundance

Before taking on a major product line, it is important to know the degree of the participation in the market of the product. Some product lines may be very widely distributed; they are considered a commodity.

It may be essential to your business to have such products in order to be seen as a competitive source of supply in your market. In that event, it is important to look for other product lines that will differentiate your business from others in the market.

**Commodity**—In a general sense, the word means anything that is traded—bought and sold. However, as a business term, it is usually used in reference to raw material products of any kind that may be traded on the stock market such as lumber, metals, beef, cotton, or whatever.

The term is also used in reference to finished goods of any kind that have become common in use, of generally similar quality and so generally available, that the consumer tends to buy them on the basis of price only.

**Examples** of such items might be toilet paper, nails, packaged water, many food items, or electrical wire. There are some minor differences to distinguish one brand from another, but it can get to the point where the consumer sees little difference between brands. When this occurs, the business world refers to such an item as becoming a commodity.

You need to find products that will give the business areas of uniqueness or specialization. These types of products are likely to have the greatest growth potential for the business.
These are some of the questions to ask about all product lines carried by the business.

1. How many businesses are now marketing the products in your market? Who are they? Where are they located in relation to your business?

2. What is the possibility of obtaining the rights for the exclusive representation of the product in your market? If so, what period would the exclusive be? If so, what would be the performance criteria?

3. How complete is the inventory of the products stocked by these competitors?

4. How do these competitors market their product lines? Are they usually sold at regular prices or are they constantly 'on-sale' at some stores? You want to get a sense of how tough the competition is and how much of your business' resources it may take to compete.

5. Are the product lines featured frequently by chain stores, franchises or buying groups in your market?

6. What specialty products or related products do not appear to be well represented in the market?

7. What after-sale services are related to the product lines? How many competitors offer these product-related services? Who are these competitors and where are they in relation to your business location?

8. Are there other questions that you should ask?

Apply these questions to each supplier or kinds of suppliers. Write a summary of your answers.
3. **Dealer program policy**

Some manufacturers or distributors have structured dealer programs. These programs can require certain minimum standards to qualify as a dealer and be eligible for dealer pricing and the various items in their dealer support program. Some businesses may find after they have taken on a product line that they cannot afford to adhere to all of the requirements of the dealer program.

Consequently, it is very important to do your homework and be sure that you can sustain the dealer program once you have started. Otherwise, it can result in a very costly mistake.

The minimum standards can include requirements such as:

- Minimum dollar value of opening inventory order
- Maintaining annual purchases at or above a certain dollar value
- A specified basic inventory selection in order to participate in national or regional promotions
- Mandatory participation in national or regional promotions
- Maintaining a specified minimum amount of shelf space for the product line
- Maintaining a certain appearance of the product presentation by requiring use of shelf headers or other *point of sale (POS)* materials supplied by the manufacturer

Although the above are not questions, treat them as questions for your research for each of the various suppliers or kinds of suppliers.

Summarize your answers.
4. **Product quality and selection**

Research the quality of suppliers' products. The range of quality options is also important and the depth of selection within those quality ranges. Customers today are looking for value. They want to be able to fit the quality of a product to both their pocketbook and the expected usage of the product. The company's reputation and its perception in the marketplace will depend on:

1. Do the products have a good track record of performance? Do they live up to the advertised claims?
2. How the products are generally rated against other brands offered in the market?
3. How would the products rate on a scale of 1 to 10 with 10 being the highest quality?
4. Do customers in the marketplace perceive the products as good value for the money? Alternatively, do customers see them as 'overpriced' or 'under priced' in relation to other brands and performance delivered?
5. How many levels of quality does a supplier offer within a product class? Will all levels of quality perform adequately?
6. What is the selection offered within each quality level?

If the product was an automobile tire, it might be the sizes available in a certain level of quality.

7. Do you have other questions that will help you understand product quality and selection?

It takes time to do this research. Use the above questions for the various suppliers or kinds of suppliers. Summarize your information.

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**For instance**

In decorative products, this might be the variety of colours available in each quality level.

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**Good informational sources are:**

- Industry publications
- Consumer publications (Consumer Reports)
- The Better Business Bureau
- Other major users in the market
- Friends and neighbours
- Personal use

See the Appendix for more sources
5. **Pricing structure and policy**

The pricing structure and policies of a supplier can affect how effectively the business can represent the products in the market. It may also affect how competitive the business will be. There is practically no limit to the variations in pricing structures and policies, even within a particular industry. It remains for the business to determine what is best for their situation and their market.

Some examples of suppliers' variations in pricing structure and policy are:

1. One price for all businesses of a type, no matter how much is purchased.
2. One price for all businesses of a type, but with certain annual volume discount levels

   For some businesses, the volume necessary to achieve a volume discount may be unattainable for a variety of reasons and this may put the business in an uncompetitive situation.

   If a volume discount is achieved, suppliers may give a rebate in the form of a credit to the customer's account or issue a cheque.

3. Some suppliers may use price tables.

   Price tables are a published schedule of price levels for different levels of volume purchased or different classifications of customers.

4. There could be any number of levels of pricing, for example, 3–6 levels.

   We previously spoke of the supply chain and you can see that a manufacturer would have at least four levels of pricing—master distributor, distributor, wholesaler, and dealer.

5. Within each of these general classifications, each level may have a schedule of prices for such categories as retail, commercial, industrial, and government, as well as special pricing for volume users of a single item.
6. Some suppliers in businesses with seasonal products may offer 'booking programs.'

These are also sometimes called 'dating programs.' These programs usually offer substantial discounts on products if an order is 'booked' several months in advance of the shipping date.

The discounts offered on 'booking programs' can be 15%–25% or more, less than the regular cost.

Sometimes, further incentives are given such as allowing a month or two extra to pay but there is also usually a graduated early payment discount schedule to promote early payment after shipment is made.

Suppliers typically offer these programs to keep their factories producing during slow periods.

The downside to the business taking advantage of a 'booking program' is that the minimum quantities required for the 'booking' often amount to several months' supply of products.

This lowers product turnover and can affect profitability.

The foregoing is to illustrate that there are many combinations and variations when it comes to pricing policies. It is important that the business compare the advantages and disadvantages of each supplier's programs as it may relate to the market served and a business' ability to use the program.

Develop a set of questions from the information listed above in the various points. Ask the questions of your suppliers or kinds of suppliers.

Summarize your answers.
6. **Advertising programs and support—nationally and locally**

Supplier advertising programs assist in the development of consumer awareness. They are very important considerations for the beginning business as well as the existing business. These programs help to establish credibility for the product in the market and they 'pre-sell' the product.

This helps to reduce or offset the marketing cost to the business. However, these programs always require a commitment from the business participating in the program.

Here are some things to be aware of and examples of typical conditions of these programs:

1. **The cost of national advertising comes out of the cost of the product to the business.**
   
   That is why suppliers sometimes impose minimum levels of purchases for their customers or, alternatively, different levels of pricing for different classes of customers.

2. **Some suppliers can require mandatory participation in national advertising programs as part of the dealer agreement.**
   
   Some small businesses may find that it is financially difficult to maintain participation in these programs. It may even be that the national promotion pricing is so low that it is literally a 'loss leader' intended to bring customers in the door.

3. **Many suppliers offer co-operative advertising programs.**
   
   These programs are to help a business financially to support and participate in the national advertising programs. Usually these programs are called 50/50 Co-op Ad programs.
   
   This means that the supplier will match the dollars spent by the business on advertising of the supplier's products up to a specified maximum amount that is usually a percentage of annual purchases. It is common for suppliers to provide 2%, 3%, or even 6% of annual purchases in Co-op advertising support.

   **For example**
   
   If purchases of the product annually were $50,000 and the 50/50 Co-op advertising allowance was 3%.

   Then the supplier would pay $1,500 of advertising cost if the business spent $1,500.

   Suppliers usually pay this in the form of a credit on an account after receiving proof of the advertising.
4. It is very useful for a business to know in advance, for budget purposes, the advertising or promotional calendar of their supplier.

Some suppliers may not wish to divulge that information for competitive reasons, but some will provide their dealers with an outline of their future advertising activities.

5. The more catalogs, data sheets, brochures, camera-ready Ad materials, etc. that are available from a supplier, the less cost there is to the business in promoting the products.

Most suppliers producing these Ad materials provide a space for a business to stamp the materials with their business identification.

Smaller suppliers of products that are less well known may not provide as much advertising support of all kinds.

The cost then, of raising awareness of the product, must be borne by the business.

These few examples of advertising programs offered by suppliers can be very important to the success of a business. However, compare carefully these programs with the view to affordability and the fit for the future needs of your business.

In addition, advertising programs are only part of the total analysis that goes into deciding upon a product supplier.

Use the above ideas for a set of questions that you will ask your various suppliers or kinds of suppliers.

Summarize your answers.
7. Warranty policy and procedure

Suppliers will stand behind their products to the degree that is has an important bearing on the image of products in the marketplace. Guarantees of performance and warranties extended by the manufacturer are important selling features.

They assure the end user that if the product does not perform as claimed, there is some recourse. However, it is important to read the fine print when comparing product guarantees or warranties.

Here are a few things to consider when comparing warranty policy and procedures of prospective suppliers:

1. Who is offering the warranty?
   Is it the manufacturer, the distributor, or the wholesaler?

2. What does the warranty cover?
   Does the warranty cover the replacement cost of the product?
   Is the value of the warranty pro-rated over the 'expected life' of the product?
   Does the warranty only cover replacement of parts, not labour costs?

3. If the product is to be repaired under warranty, is there an authorized warranty service depot in your area?
   Is it the dealer's responsibility to arrange for the repair or is the end user to be directed to deal with the repair depot?

4. If there is no authorized warranty service depot in the area, where does the product have to be sent for repair, and who pays the shipping costs?

5. In most cases, what is the time involved for a typical warranty service repair?

6. What is the experience of the Better Business Bureau in the area in regard to any consumer complaints about the product performance or the honouring of warranty service?

   Ask these questions of each of your suppliers or kinds of suppliers. Summarize.

An example of a use of a warranty

A business may decide to use a supplier's service and warranty programs in their advertising. When you see an Ad telling you that a computer has a 3-year warranty, it's the supplier's offer, not the local dealer.

That is one example of the use of supplier service and a warranty program to market a business.
8. **Shipping policy, freight policy and returns**

Shipping and freight policies of suppliers can have a significant affect on the selling price to the end user and the profitability of a company.

- Some suppliers have minimum quantity or invoicing requirements.
- Some have different shipping policies for different geographic areas.
- Some suppliers offer incentives to increase order size and will even prepay the freight costs if the order is over a certain number of units or dollar value.

The reason for this is that the supplier can take advantage of lower freight rates on larger orders. Accordingly, when assessing suppliers, their shipping and freight policy are important considerations.

Here are some of the key points to look at:

1. Is there a minimum quantity or dollar amount required to place an order?
2. Is there a schedule of freight allowances offered to offset freight costs and encourage larger order size?
   - On a regional basis, some suppliers will offer a percentage discount off the order total if the order is over a certain amount.
3. Does the supplier have a 'drop shipment quantity' incentive?
   - A drop shipment is a term used to describe an order on which the supplier will prepay the entire shipping cost. The criteria vary with the supplier.
   - A drop shipment may be a certain number of product units, cases, total weight of the order or the dollar value at cost.
4. What is the typical delivery time after placing an order?
5. What is the procedure for returning products?
   - What approvals are necessary to authorize a return?
   - What are the conditions?
   - What proof is required for returning products?
   - How long does the process take?
   - What is the restocking charge, if any, and under what circumstances does it apply?
6. Are there other questions that should be asked?
   Ask these questions of your various suppliers and kinds of suppliers.
   Summarize your answers.

9. **Payment terms**

   Payment terms can be extremely important to the success of any business.

   If payment terms are given to the buyer of the goods, it means that a period is allowed before payment must be made.

   If payment terms are *net*, it means that there is no time extended to make payment for the goods and the invoice is due and payable upon presentation of the invoice.

   When a product is bought and if no payment is required for 15, 30, 60, or, even 90 days, there is a real benefit to the business for that period. That is because there is a value to using money for a period.

   If the bank lent the money, there would be interest due for the period the money was used.

   In the case of product payment terms, usually no interest is charged; therefore, there are several advantages to the buyer:

   1. The product may be sold before payment is required.
   2. If the business doesn't have to pay for an order for 15, 30, 60 or 90 days, it can use those funds to invest in other business needs.

   In other words, special terms can materially affect and improve the **cash flow** of the business.

   Depending on the cost of borrowing and the time interval allowed before payment, the savings to the business could typically be between 1–3% at cost. When that savings is marked up to reflect the selling price, the business could be saving 50% or more, or 1½–4½% of the cost of the product.

   However, if special terms are contingent upon taking several months' supply of product, it may not be worth it.
Many companies will offer incentives for early payment of invoices. It is common, depending on current interest rates, for companies to offer 1–2% off the face of the invoice for payment before a specified time. Usually this is 10–15 days after the invoice date.

Being able to take advantage of all early payment discounts can be a major saving to a company.

If a saving of even 1% was realized on purchases every month that amounts to 12% per year.

At selling price, that could be an improvement of as much as 18% in gross profit margin.

Even if the funds were borrowed from the bank to make the payment, the savings would be significant.

In summary, the key point here is that 'time is money.'

If payment terms are used creatively, the business can effectively use supplier's money at no cost and have the business enjoy the savings.

Hence, comparing the payment terms and flexibility of suppliers is an important aspect of assessing prospective suppliers.

You can develop a series of questions from the above information that you can ask your various suppliers or kinds of suppliers.

Summarize the answers.

Compile for the business plan

Once you have completed this research and summarized each segment, it is time to bring together all the summaries and make sense of them. Examine each of the nine sub-headings relating to Product and Sources of Supply.

For those sources of supply that are above your place on the supply chain, you will likely have a much better understanding of them. You know with whom they do business, and what their business profiles are. You should be able to choose the suppliers with whom you will do business. You know what they have to offer and how they do business.

For example
If you are a dealer, you now know who the distributors' suppliers are and who supply your wholesaler.
If you have suppliers below you on the suppliers' chain, you should have a better understanding of how you should be providing service to them and what kind of services.
This information will be very useful to you when it comes time to design a *marketing plan* and a *financial plan*. You should be able to dovetail your suppliers' marketing services with your own.

For each supplier that you do business with, or intend to do business with, write a complete summary using the nine headings discussed above, and add any other information that you gleaned from your research.

Place it in your business plan in the Product and Sources of Supply section of business offerings. Either retain the research in the business plan Appendix or file it (in a filing cabinet or on the computer).

Be prepared to reconsider your decision after you have completed the other related parts.

Did you have to change or modify other parts of the business offering because of what you learned in this section?

### Uses for research

There are several uses for this information in the product and sources of supply section. Use it to:

1. Determine your product line
2. Determine who your suppliers are
3. Assist you in designing your target marketing plan
4. Determine your product mix and who the suppliers are for this mix
5. Design your marketing plan
6. Design your target marketing plan
7. Write the financial plan
8. Be able to talk with the various suppliers' representatives when they either visit your business or phone you. If you already know much about them, their products, and their services before they visit, it will enhance your discussion.
Summary

In this section, you have learned how to research and qualify products (offerings) and suppliers of the products. The information gathered and analyzed allows you to make decisions related to the offerings of your business. In turn, consider your decisions together with your results in the following modules found in *The Business Plan*:

- The Competition and Your Competitive Edge
- The Customer/Client base
- Market Analysis

The results of this research and the decisions reached will form the basis for designing the *marketing plan* and writing your financial plan.

Did you discover anything in the section that will change or modify any of the other sections, especially in the business offerings section?
Celebrate!!

We deserve this bit of a break before hitting the last one.
Market Analysis

Introduction

In this section, you will complete a *market* analysis. In the market analysis, you will bring together the information you have researched about your customers, your competition, and your suppliers. You will then view this information and the conclusions you have reached in the context of existing and developing market conditions.

You may already have completed these other sections:

- The competition and your competitive edge
- The customer/client base
- Product and sources of supply

You may have decided to complete this market analysis section first. If so, it is conceivable you will not be able to complete this section until the others are finished.

However, view none of the following information in isolation. The point is how this information eventually will come together to form part of an overall *marketing strategy*. There is no set formula to do this.

*How to use this material*

Market analysis is part of the business offering section of the business plan. It is part of the market research (that you are doing) to determine or reassess your business' offerings and to prepare for the business plan. Utilize this information when you design a marketing plan and write a financial plan.

It likely does not matter in which order you work through these sections. You probably will need to revisit them several times before you make your final decisions of your offerings.

All the decisions that you make regarding product, place this information about product lines, and sources of supply in your business offerings folder under a heading called Product and Sources of Supply or another name that you choose.
New businesses

A new business will often be starting from scratch when beginning the market research project. This can be viewed as both an advantage and a disadvantage.

It is an advantage in that the researcher has few preconceived ideas about the market and, therefore, is viewing the market through *fresh eyes* and discovering the market data for the first time. In this event, sometimes new and innovative conclusions are reached.

The disadvantage is that the researcher has no business history to use as a guide and to measure conclusions reached against actual performance data.

Existing businesses

The existing business has historical data that can be very useful in assessing how pertinent market research data may be to the local business market. However, because marketing conditions are constantly changing, the researcher must be very critical in the use of historical data. It is easy for researchers to allow themselves to be too accepting or blinded by historical data.

Implementing a market analysis

The marketplace is constantly changing and a business must be constantly adapting to the changes or it will not remain in business for long. In this section, we will provide a series of questions that you could ask about the existing conditions in the market and the developing changes that may be occurring in the marketplace.

Researching the marketplace is important because it will indicate how developing or future changes in the market may affect any *market segments* within your business or your business as a whole.

Once this is finished and you have drawn some conclusions based on these questions, you should revisit the information gathered about your customers, your competitors, and your suppliers to decide how the market conditions (that you just researched) will affect your business' offering profile. This research will be used later when you are designing your marketing plan or writing your financial plan.
Before commencing your research using the set of questions listed below, you need to make some initial decisions:

If your business only provides services, then research the following questions from that stance (accounting, childcare, auctioning, golf lessons, or career planning, etc.).

If your business provides products and services, then research the following questions on the basis of the products, categories of products, or the product mix (health preparations, gardening supplies, desktop publishing, or waste collection).

If your business has several market segments, then you should answer the questions for each of them.

You might also want to use these questions to research your kind of business (hardware, coffeehouse, accounting firm, video store, tourism, or multi-level marketing).

Describe the industry trends—local, regional, and national.

1. Where is it going—what are the trends that are influencing the market currently?
2. What developments have there been in the marketplace recently?
3. What is no longer being used or done?
4. Is the market growing, diversifying, niching, or shrinking? If so, at what rate and what is the change?
5. What are those in the industry saying the future will bring? (Research trade publications at the library)
6. Are there other questions that apply to your business?

Summarize your answers and place them in the market analysis part of your Business Offering file.
This information is important because it will indicate how developing or future changes in the market may affect any of your market segments within your business or your business as a whole.

Because of the above analysis, there may be four possible answers:

1. **Decline of business revenue**
2. **Growing market**
3. **Shrinking market**
4. **An increasingly specialized market**

**1. Decline of business revenue**

If it is determined that certain products that account for a major portion of business revenue will probably decline in terms of revenue contribution over the next 3–5 years, then you should ask the following questions:

1. Why is the product revenue likely to decline?
2. Will the product become obsolete? Will a niche market remain? Alternatively, will a specialty market remain?
3. What product or products will be taking its place?
4. What associated or accessory products might be affected?
5. Does the new product involve new or innovative technology?
6. What related products will be necessary to stock in order to support the new product?
7. How are consumer preferences changing?
   - Is the decline in the product an isolated thing or is it an indication of a larger shift in the market?
2. **Growing market**

If your research indicates that the market is growing, some questions to ask are:

1. How fast is the market growing?
2. In what way is it growing?
3. Will the demand grow for products of the same type or is the trend towards offering the customer more choices of:
   - Quality
   - Performance
   - Appearance
   - Price
4. What will this mean to your business in terms of investment in inventory, trained staff, product support, store space, and marketing expense?

3. **Shrinking market**

If your research indicates that the market is shrinking, some questions to ask are:

1. How fast is the market shrinking?
2. In what way is it shrinking?
3. Will there always be a demand for some of the products?
4. If so, which products will likely be retained, how much investment will this require?
5. What will the return on investment be to handle the product? In other words, will it be worth keeping?

4. **An increasingly specialized market**

If your research indicates that the market is becoming increasingly specialized in the way products are marketed to the consumer, and then ask the following questions:

1. What is the rate of specialization?
2. What will be the major areas of specialization?
3. How big will each specialized market be in your business area?
4. Would you be able to sustain your business if you specialized?
5. What volume of sales would be needed to be generated a more specialized product assortment in order to break-even and make a profit?
6. Would specialization make the business more vulnerable to changes in the market?
7. How many other businesses are also specializing in your market?
8. If everyone specializes, will that create a market for some businesses to remain generalists?

   In that event, what is the market potential if specialists take a major part of the market?

Summarize the answers to the above questions and place the summary in your Business Analysis section of the business offerings. Place the research in the business plan Appendix, in a filing cabinet, or on the computer. Date it.

You will use the collected information in:

- Writing the short-term goals and results of the business for the next 12–18 months
- Writing your marketing plan
- Forecasting, planning and budgeting the future course of the business

**Information sources**

Common sources for market research information are government, industry, and consumer publications. Local business organizations such as the Chamber of Commerce are also good sources. The following is a list of other research sources that can be helpful.

- All of these should be available at your local public library
- Canadian Business Directory
- Business Opportunities Sourcing System: Made In Canada: BOSS
- Canadian Trade Index
- Fraser's Canadian Trade Directory
- Consumer Reports Sources Directory
- Scott's Directories Contacts Target Marketing
- Market Research Handbook
- Financial Post Canadian Markets
- Compusearch Market and Social Research Ltd.
**How to use the information**

The product and sources of supplies are part of the business offering section of the business plan. It is part of the market research (that you are doing) to determine or reassess your business' offerings and to prepare to write a business plan. In addition, utilize this information when you design a marketing plan and write a financial plan both elements of a business plan.

The results of the research and market analysis are a key part of developing a marketing plan. I am sure you can see already how this market analysis section relates to the three other sections:

- The Competition and Your Competitive Edge
- The Customer/Client base
- Product and Sources of Supply

The results of this research will allow the business to prepare *Pro-Forma* financial statements and *cash flow* projections on expected future business performance.

**Summary**

In this section, you have learned a lot about the process of market analysis. You have learned how it involves reviewing and questioning all of the research that you have completed on customers, competition, suppliers, products, and trends.

Because of this process, you will have arrived at conclusions as to how these elements will interact within your business and your market. This is an important step before preparing a marketing plan.

Did you discover any information that will change or modify any of the other related sections?
Compiling the business offerings information

In the last four sections, you have completed a market research on your business offerings.

You have completed:
1. The competition and your competitive edge
2. The customer/client base
3. Product and sources of supply
4. A market analysis

You have summarized numerous sub headings for these four sections and each section. Now, you need to review all these summaries and unite them into a meaningful explanation of your business offerings for your business plan.

You decide in what order you want to arrange the four headings. You decide if you want to rename any of them or if you want to delete any of them. This is your business plan. It should be a meaningful document and one that you are going to use for the entire year.

Design a flow chart or spreadsheet to post on the office wall. Likely, the information that you collected and made decisions about in this part of the business plan will not be placed on this spreadsheet. Nevertheless, use this information throughout the rest of the business plan.

What you have completed is your market research.

If you are a new business, you have validated what you thought your offerings should be or you have made changes in your offerings because of the market research.

If you are an existing business, you have also validated your business offerings. You, too, may have made some changes in them by adding, expanding, or deleting some of them.
Retain and date the research because you will need it at another time. You likely will need to update it but that will probably not take as much time as it did the first time to write it.

Did you find the answers to the following three questions (See the beginning of business offerings)?

1. How does my market research support what I am selling and to whom I am selling it?

2. Can I name the solid contacts that I made during my market research? Have I placed all of these contacts in a database to allow ready reference in the future?

3. On a scale of 1–5, how well connected am I within my particular industry?

Two more questions are:

1. How many potential customers/clients did I speak to while I was working on my research? What was their response?

2. What else do I have to do to have success?
Celebrate!!

Success is what we have
Other products and modules for sale

Other modules available on this site deal specifically with aspects of business planning research and analysis. For a complete, in depth treatment of business planning the BizBite Consulting Group product The Business Plan is also available. For detailed information on the content of these products, please go to ‘Product’ on the menu bar on the web site.
The Glossary of Terms

Amortization—the process of gradually paying off a liability over time. For example, a mortgage is amortized by periodically paying off part of the face value amount of the mortgage.

Business plan—describes the business and identifies the core business' activities that will occur over a period of time-usually 3-5 years. The business plan details the company objectives, how they will be accomplished, the resources it will take, and what results are expected.

Buying groups—groups comprised of similar businesses that form an association or a company for purchasing on behalf of the group. They may also provide varying degrees of marketing support for the members of the buying group. Some buying groups may also provide distribution services.

Cash flow—the actual movement of cash within a business.

For example, cash inflow minus cash outflow. A term used to designate the reported income of a business plus amounts charged for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. These are used to offer a better indication of the ability of a company to meet its obligations and to pay dividends than with the conventional Net Income Statement.

Depreciation—the amount by which the cost of an asset is written off over its useful life. In other words, the amount by which a fixed asset reduces in value over time.

The most important causes of depreciation are wear and tear, the effects of the elements, the gradual obsolescence that makes it unprofitable to continue using some assets until they have been exhausted.

Depreciation is a bookkeeping charge, the purpose of which is to write off the original cost of the asset (less any salvage value) over time by equitably prorating the charges over the expected useful life of the asset.

Differentiation—the process of identifying the differences between the various operations of businesses. The term is frequently used in reference to the marketing activities of a company and the offerings that are differentiated from other companies.

Direct competitors—competitors providing similar products or services in the same market area. For example, all hardware stores in a town would be direct competitors.
Franchise—an organization providing varying degrees of business management, marketing support, and buying power to member businesses. In return, the member business usually pays a substantial fee to join the franchise organization as well as annual membership dues and, in some cases, even a percentage of the profit.

Gross margin (GM)—the money left to cover the expenses of selling the offerings and operating the business. Same as Gross Profit Margin defined below.

Gross profit margin—the difference between revenue and the cost of goods or services sold.

Indirect competitors—those competitors that provide some merchandise or services that are similar to your business but that also provides many other products or services that your business does not provide. For example, a department store may have a hardware department that competes with some products sold in hardware stores.

Market—is a place where buyers and sellers come together. The number of people and their total spending—actual or potential—for your offering(s), within the geographic limits of your distribution capability

Marketing mix—the controllable variables the business puts together to satisfy this target group. It has four components: product, place, price, and promotion. These components are sometimes referred to as the four P’s of marketing.

Marketing plan—a written statement of a marketing strategy and the time-related details for carrying out the strategy.

Marketing research—procedures to develop and analyze information to help marketing managers make decisions

Market segment—a relative homogeneous group of customers who will respond to a marketing mix in a similar way.

Marketing strategy—specifies a target market and a related marketing mix. It has two parts: target market and marketing plan.

Offerings—the products and services that a business provides its clients/customers

Product—the needs satisfying offering of a business. It includes physical goods, services, features, quality level, installation, instruction, warranty, product lines, packaging, and branding.
Promotion—communicating information between seller and potential buyer to influence attitudes and behaviour. That includes promotion blends, salespeople, advertising, sales promotion, and publicity.

Profit—a business' earnings after paying all expenses.

Pro-forma—a projection or estimate of what may result in the future from actions in the present. A Pro-Forma financial statement is one that shows how the actual operations of the business will turn out if certain assumptions are realized.

Revenue or sales—are the dollars you receive for the offering you sell.

Target market—is a homogeneous (similar) group of customers to whom a company wishes to appeal.

The specific individuals, distinguished by socio-economic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and/or services of the business.

Unique selling proposition (USP)—what make an offering unique (different or special)?