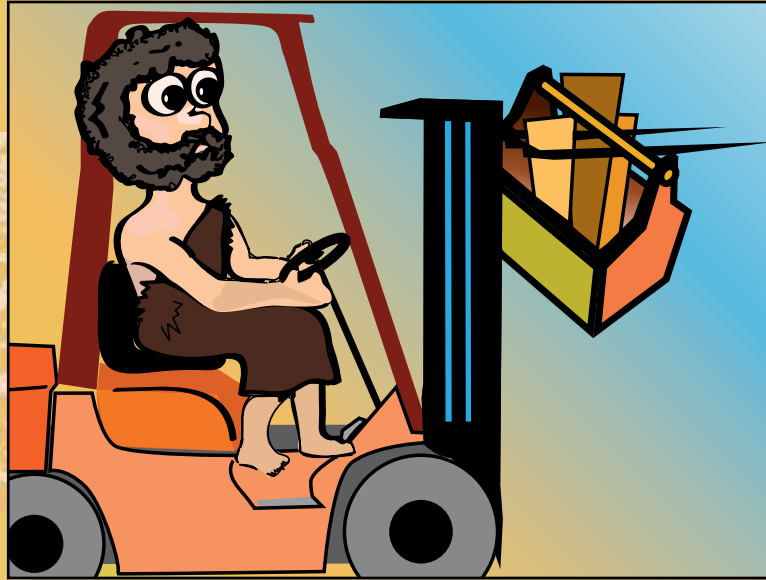


February 2010

Contributions in Education and Outreach

No. 3a



Wood-based Entrepreneurs Toolkit: Strategic Marketing

Eric Hansen

Forest Research Laboratory
College of Forestry
Oregon State University
Corvallis, Oregon

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Abstract

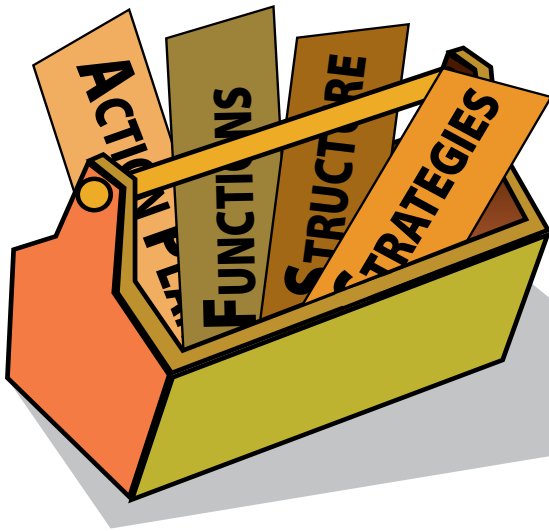
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Marketing integrates the various functions of a company to target specific markets in order to best meet the needs of customers and helps to create relationships with those customers. This document outlines key principles of strategic marketing, illustrated throughout with examples drawn from the marketing strategy developed by a small sawmiller, as well as two examples of well-formulated marketing strategies from small wood products manufacturers.

Keywords: Strategic marketing, marketing planning, wood products manufacturers.

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Entrepreneurs tend to be highly energetic and creative people. To run a successful small business, some of this energy and creativity must be focused on strategic marketing planning. A marketing focus will help avoid what we at the Oregon Wood Innovation Center (OWIC) refer to as “the \$20 two-by-four”—in other words, a product for which there is no viable market due to its inability to compete with products that are currently available.

Focusing on customers and understanding their needs will allow you—the small business owner—to design a marketing plan that achieves a competitive advantage for your product or service, thereby ensuring it has a home in the marketplace. This document outlines key principles of strategic marketing, illustrated with examples drawn from the marketing strategy developed by a fictitious small sawmiller, “ABC Hardwoods,” and two small wood products manufacturers, “Caveman Pallets” and “Isaw4you.”

1 Introduction

Marketing can be seen as a tool for satisfying the needs of society. It provides the link between the production taking place in a company and the demand by individual consumers. To function properly, this link must provide information in both directions. Marketing integrates the various functions of a company to target specific markets in order to best meet the needs of customers—and helps to create relationships with those customers. Thus, marketing can be simply defined as identifying the needs of a customer, providing a product/service that meets those needs, and obtaining a profit in the process.

In many firms, however, marketing is often talked about, but seldom practiced. This may be because few people understand what marketing means in practice. Many consider selling and marketing to be synonymous. Often, entrepreneurs may be so focused on their product/service concept that they fail to fully consider whether the idea fits the needs of a particular company or consumer. Companies that are production-oriented focus on production efficiencies and hire sales staff that can push their production into the marketplace. This approach to business does not embrace the principles of marketing.

A customer- or market-oriented company focuses first on the customer and develops a product or service to meet the customer’s need. When your business is customer- or market-oriented, your relationships with customers are strong, and markets and marketing strategies direct business planning on all levels, from investments, to raw material procurement, to manufacturing and production. For example, if you produce a commodity product, such as such as dimension lumber, the manufacturing equipment you use is likely very different from the equipment needed to produce a custom-made product, such as custom cabinets. Understanding that profits are created through customer needs and buying behavior will allow you to focus on meeting those needs.

2 What is strategic marketing?

Pursuing a sustainable competitive advantage is the essential goal of strategic marketing. One role of marketing, regardless of company size, is to constantly produce information about the business environment of the company (especially customer needs, market trends, and demand). Based on this information, you can formulate appropriate *marketing strategies*, *marketing structures*, and *marketing functions* (Figure 1). From these, you can create your *marketing action plan*.



Figure 1. The structural hierarchy of strategic marketing.

2.1 Marketing Strategies

The most basic components of a marketing strategy are the *products* you will provide, the *customers* and *market areas* you will serve, and the *core competencies* (the unique skills or attributes that differentiate a firm) you possess.

The essence of strategic marketing is making good choices about the components of a marketing strategy and recognizing the effect of those choices on the design of marketing structures and functions. When you design your

marketing strategy, you do so by making decisions regarding each of four strategy components: (1) products, (2) customers, (3) market area, and (4) core competencies.

The first three components can be considered along a continuum from general to specific. For example, the product component can generally be divided into three areas of emphasis, from a general, generic commodity product to a special product to a specific, custom-made product (Figure 2).



Figure 2. The continuum of marketing (product) strategy choices.



Example: ABC Hardwoods

The following example is designed to illustrate the elements of *strategic marketing* as outlined in the remainder of the document.

ABC Hardwoods is a small, fictitious operation in the Willamette Valley of Oregon. The company was created in the mid-1970s by Slade Gardner. His daughter, Julie, grew up in the business and took ownership in 1999. Julie has focused on *strategic marketing* to take the small company to a new level. Instead of relying on wholesalers and walk-in traffic, she began focusing her efforts on architects, a move that has been quite successful. As a result, the company has grown to five employees and Julie spends most of her time interacting with existing or potential customers.

Follow the yellow and gold ABC Hardwoods sidebars to see how this small company implements some of the most important aspects of strategic marketing. There are two additional examples of marketing strategies on pages 4 and 5.

Product

As you might guess, the product component of your marketing strategy must be specific for your company. For example, if you make pallets you might choose to produce any one of the following:

- Commodity — Grocery Manufacturers of America standard size pallet
- Special — specific size and performance level required by the berry industry
- Custom-made — high performance, custom-designed pallet required by an electronics manufacturer

Customer

The customer component of your *marketing strategy* consists of the customer groups you will target for your product. From general to specific, these customer groups are as follows:

- As many customer groups as possible
- Few, well-specified customer groups
- Known (individual) end-users

The customer groups you choose to target will generally be based on the type of product

you choose to make. For entrepreneurs, choosing to target “as many customer groups as possible” is seldom viable; however, if you are producing a commodity product, such as dimension lumber, this may be an option. An example of “few, well-specified customer groups” would be targeting companies that produce door and window components (considered special products because they are designed for a specific industry sector). The “known end-users” customer group is highly specific and is usually used in conjunction with custom-made products. A familiar example of this is a custom-home builder, who interacts with an individual home buyer and produces a custom home based on the specific needs of that buyer. Any time you make a product that is individually designed and produced, it means you have a known end-user customer strategy.

You may be marketing to another company or to a final consumer. The way you conduct your marketing will differ based on the nature of the customers you choose. If you market to 20 different retailers in your local region, you will do things much differently than if your target is hundreds or thousands of individual consumers.



Caveman Pallets

Caveman Pallets is located in Sacramento. The company specializes in wooden pallets and crates for the fruit and vegetable industries in California. Being small, the company focuses on serving smaller-scale customers. Their main competitive advantage is long-term, strong customer relationships. The marketing strategy pursued by the company can be described in this way:

- Product: special
- Customer: few, well-specified groups
- Market area: regional
- Core competency: customer relationships



Market area

Another key strategy decision is the market area upon which you will concentrate your business. Market areas may be

- Local
- Regional
- National
- Global

Again, these represent a continuum ranging from someone in the immediate area of your company to a truly global market. The basic concept here is a market area that is narrow versus wide. If you are on the west coast of the U.S. and you concentrate exclusively on the Japanese market, this is roughly equivalent to a local market in that it is narrow, even though it is international. The resources you have available to you, the nature of your product, and factors such as transportation costs will all influence what is a feasible choice for your business.

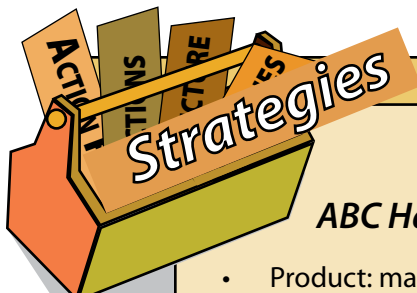
Core competencies

Core competencies are those skills you possess that provide you with competitive advantage. Essentially these are things that you can do better than the competition, thereby differentiating you and your product. The following are examples of core competencies:

- Product/service quality
- Truly unique product or raw material
- Customer relationships
- Superior/unique marketing communication
- Fast delivery
- Being a local producer

Creating a Logical Strategy

The strategy elements must fit together in a logical fashion in order to create a viable overall strategy. For example, it makes little sense to produce a custom-made product and attempt to focus on as many customer groups as possible. Instead, a




ABC Hardwoods

- Product: made-to-order (custom-made) hardwood lumber and moulded products
- Customer: architects
- Market area: Pacific Northwest
- Core competencies: Hard-to-find species and sizes, highly flexible operation with ability to produce many lengths and dimensions for a customized package

custom-made product strategy matches well with a known end-user customer strategy, and a local market area strategy. There is obviously no “right” formula since a custom-made product could be marketed globally.


It is critical for you to consider that the choices you make regarding your marketing strategies have a significant impact on everything else you do in your business. If you choose a custom-made product, you must have the right people and systems in place to take and fill detailed orders. If you choose to target known end-users, you must be willing to invest significant time in building the relationship yourself or have employees that can fill that role.

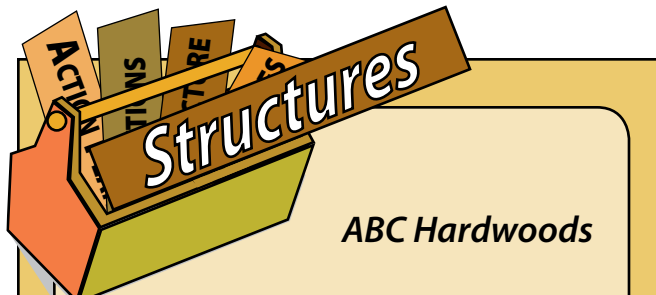


ISaw4U

ISaw4U is a one-person operation with a portable sawmill and a small dry kiln. The company is located in Roseburg and concentrates on native hardwoods. A key to the company’s success is experience and knowledge in processing and drying lesser-known, native hardwoods. The company carries no finished inventory and only mills based on specific orders. Generally, customers are located on the west coast of the U.S. The marketing strategy pursued by the company can be described in this way:

- Product: custom-made
- Customer: known end users
- Market area: regional
- Core competency: ability to provide unique native hardwoods of high quality





Structures

ABC Hardwoods

ABC is highly reliant on the internet for market information. Because the customer strategy is focused on architects, Julie closely follows trends in the architecture and building communities. Most recently, green building has been the main marketplace trend that she has followed. Because ABC is such a small operation, very little market information/knowledge is incorporated into company databases. Julie uses Microsoft Outlook® to maintain a customer database.

Much of the customer interface with the company takes place via its web page. In the past ABC has seen considerable interest from hobbyists for very small quantities of product. Therefore, Julie designed an enquiry system through the company homepage that allows a potential customer to enter the product specifications of what they are looking for. She can then view this to determine if it is an account worth pursuing. If it is, the data collected from the customer is used to calculate shipping weights and costs as well as invoices and other paperwork associated with the sale.

With this approach to the marketplace and the size of ABC, the marketing channels necessary for the operation are minimal. Sales and deliveries are nearly exclusively with commercial construction contractors, so no intermediaries are involved.

2.2 Marketing Structures

Marketing structures are the means by which you manage your marketing, such as how you structure the people within your company, how you handle/manage information, how you utilize electronic tools, and how you distribute your product. Small companies are limited in flexibility when it comes to marketing structures. For example, a one-person operation has few options when it comes to choosing the sales staff; the decision has already been made. However, it may mean that you are forced to outsource some aspects of your marketing in order to effectively manage other parts of the business.

Modern marketing management generally follows the principles of customer orientation and focuses on strong relationships with customers. Accordingly, as you design your marketing structures, you should always consider what impact they will have on your customer relationships. The structures must be planned so products are marketed well to customers in market areas defined in your marketing strategy, using your core competencies. It is critical that all your employees understand their own and others' marketing responsibilities. You may find it helpful to create an organization chart so people can see the relationships among individuals and parts of the company.

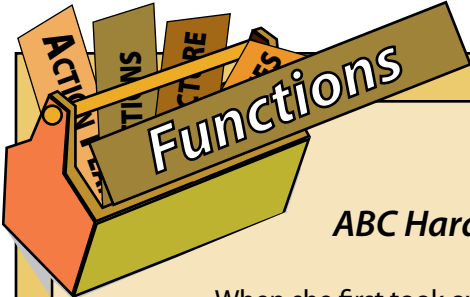
For most entrepreneurial operations, information systems are quite simple. This means you can rely on basic software such as Microsoft Office®. Contact management software is important so that you can easily maintain information about your customers. This could include soft information regarding their likes, dislikes, and favorite sports teams, for example, as well as hard information such as timeliness of payments and number of complaints/rejects. A spreadsheet can be invaluable for many aspects of your production, sales, and inventory. As your company grows, it will become more important that your software systems are more integrated and automated.

The Internet has opened a huge window of opportunity for entrepreneurs. This means that information regarding most customers and competitors is only a few clicks away. This also means that your own web page can effectively open your product to the entire globe. It can be used as an effective mechanism to communicate with customers and can serve to eliminate routine paperwork and order entry. However, it should be used as a means to enhance customer relationships not as a substitute for personal interaction.

Your marketing channel is made up of the organizations, processes, and flows necessary to get your product to the customer. The marketing channel must move the product defined in the product strategy to the customers defined in the customer strategy, etc. The objectives of marketing channels can also be defined more precisely—if, for example, customers emphasize reliability of delivery, you should emphasize this in your objectives. If you are emphasizing special or custom-made products, the marketing channel must be able to carry information and create closer contacts with customers. A key decision you must make with respect to your marketing channel is the intermediaries (e.g., wholesalers, brokers) you will use for your product to reach the ultimate end user. If you make a craft product and sell it at farmer's markets, there is no intermediary involved. However, if you make a product that will be sold in retail stores, you may need the help of a wholesaler or distributor.

2.3 Marketing Functions

Marketing functions are those on the ground activities (selling, advertising, etc.), mechanisms, or tools that allow you to carry out your strategies in conjunction with the marketing structures you have chosen. For example, if you base your competitive advantage on high quality, the most important marketing functions might be product development and close contact with customers.



ABC Hardwoods

When she first took over the company, Julie spent a significant amount of time with traditional sales efforts, cold calling, etc. Now that ABC has established a reputation and a strong web presence, she spends very little time with traditional sales activities. Rather, she is regularly interacting with existing customers via phone and email regarding their orders, industry events, supply issues, etc. Therefore, her sales function has turned more towards that of partner and trusted advisor.

Pricing is always a challenge for Julie since many of the products she creates are unique and even one-of-a-kind. Still, she has a good handle on her overall fiber and processing costs and when in doubt always prices high given the custom-made, high-end nature of her product. She has maintained a database over the years that allows her to monitor costs based on species and product mix. She has a good feel for what prices “should be” for given types of products.

Distribution for ABC ranges from UPS/Fedex for special, small orders to local deliveries accomplished with their own small truck, to large orders that are shipped out via an independent flatbed operator.

There are two basic categories of marketing functions: those that are closely associated with communication and those that are closely associated with the product. Communication includes personal selling, advertising, public relations, trade promotion, and customer service. Product functions include pricing, product development, and physical distribution.

As with marketing structures, decisions regarding your marketing functions should flow directly from the marketing strategies you have chosen. For example, if your key core competency is fast delivery, this should be emphasized throughout your communications efforts. Each of these marketing functions is covered in future publications in this series.

2.4 Marketing Action Plans

A marketing action plan outlines goals and steps to be taken in the next planning period and the metrics used to measure progress towards those goals. Marketing action plans can be called annual plans, operational plans and sometimes simply budgets. This is where you set quantitative market and customer targets and plan how you will reach those targets. You may plan for contracts with key customers and allocate volumes accordingly. You will plan for the volumes of what product mix you will likely sell during the year and tie this to cash flow, inventory, etc.

This information will directly impact your production planning. You will also put specific targets on your marketing functions. For example, with respect to communication you will identify trade shows that you will exhibit in, customers you will visit, advertising you will perform, direct mailings you will conduct, web site maintenance and all other costly activities that require careful budgeting.



ABC Hardwoods

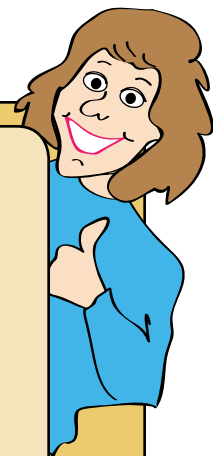
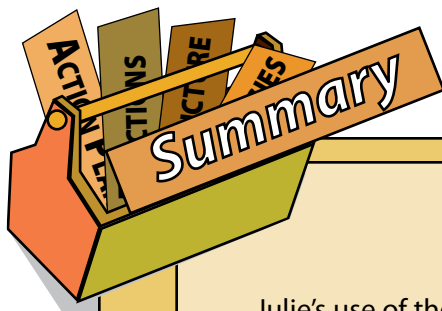
Julie wants to grow the business, but not necessarily in volume. Her primary short-term goal is to increase return per unit volume. Accordingly, she has outlined a number of actions to be accomplished in the upcoming year. To help reach this goal, Julie has allocated capital for a new piece of equipment that will increase flexibility and reduce costs. She is also beginning to train one of her employees to take on a sales role. Julie plans to exhibit at two regional trade shows, maintain her weekly advertising in the local paper, and introduce new advertisements in a regional magazine. She will do one direct mailing in the fall. Partially as a means to train the new sales person, Julie has planned monthly sales visits to her 10 most important customers.

3 Common Pitfalls

The most common marketing-related mistake for companies of any size is to fail to maintain a strong focus on the customer. Some companies in the forest industry tend to focus too much on production efficiency. Because logs often make up such a high proportion of total production costs, the company can get caught up in maximizing fiber recovery at the expense of a focus on customer needs. If you aren't making a product your customer wants and needs, it matters little how efficiently you are producing. Similarly, focusing too much on sales is a common problem in forest sector companies. It must be remembered that sales is just one tool in the implementation of a strategic marketing plan.

4 How do I implement strategic marketing?

In many ways, marketing planning is decision-making, and implementation is putting those decisions into practice. As outlined earlier, marketing strategies are formed through decisions regarding the products you make, the customers you target, the market area you cover, and the core competencies that make you different from the competition. Implementation of strategic marketing must be based on a solid marketing plan. Marketing planning must be done systematically and be based on a solid grasp of business and market information. It is critical that when you develop your marketing strategy that you do so with as much information and knowledge as possible. You can begin to think critically about your marketing strategy by answering questions like those found in the Appendix.



ABC Hardwoods

Julie's use of the web is positive in that it streamlines some of her business processes. She should be careful that it does not evolve into a substitute for personal interaction with her customers. The strategy she has developed looks to be very appropriate for the scope of her operation. She is keeping the customer central in her thinking and avoiding competition with big players in the industry.

5 Appendix

Strategies

What product(s) will you produce?

What group(s) of customers will you target?

Upon which market area will you focus?

Upon which core competencies will your marketing be based?

Structures

What is the most appropriate way to organize your marketing?

How will you manage the gathering and use of market information?

How will you utilize the Internet?

What marketing channels will you use?

Functions

How will you conduct personal selling?

How will you communicate with your customers?

How will you provide customer support?

How will you price your product?

Through what means will you distribute your product?

Action Plans

In what exhibitions or trade shows will you participate?

What volumes must you produce for your key customers?

Do you intend to establish new customers?

Where and how often will you advertise?

What additional communication will you undertake with your customers (e.g., direct mailings)?

What level of sales are you hoping to achieve in the coming year?

Do you intend to develop new products?

6 Further reading/resources

Austin Entrepreneurship Program at Oregon State University.

<http://www.bus.oregonstate.edu/programs/entrepreneurshipresources.htm>

Juslin, H. and E. Hansen. 2003. *Strategic Marketing in the Global Forest Products Industries*.

Authors Academic Press. Corvallis, Oregon. 610 pp.

Oregon Entrepreneurs Network. <http://www.oef.org/>

Oregon Forest Industry Directory. <http://www.orforestdirectory.com/>

Oregon Small Business Development Center Network. <http://www.bizcenter.org/>

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