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## 1.0 Executive Summary

Independent Choice Flicks (ICF) is an alternative video rental store located in Ann Arbor, MI. ICF will rent movies not often available from the larger chains: film festival movies, independent releases, foreign films and other "arts" films.

Ann Arbor clearly has the market for these types of films, as evidenced by the general demographics (liberal, educated, college town) and the popularity of the Monarch Arts Cinema, a first run movie theatre concentrating on this same genre of movies.

This market has been ignored by the dominant stores in Ann Arbor. They may have a few films that fit these descriptions, but in general they are far and few between. It is too difficult for the large corporations to market to this specific segment, particularly with their current business model which is putting a store in all cities that are very similar in feel and library, with a concentration on large scale commercial releases.

Through the use of ICF's competitive advantage, attention to customers, it will grow steadily to profitability. This will be manifested in two ways, 1) providing outstanding customer service and knowledgeable help, and 2) supplying movies that have a demand in Ann Arbor but have been previously ignored. The demand has yet to be addressed by the other players who leave it off their radar, assuming it is only for the fringe of the general population. Fortunately, the fringe in Ann Arbor make up a large part of the general population here.

ICF will begin profitability by month nine and will have projected profits of almost \$32,000 by year three.

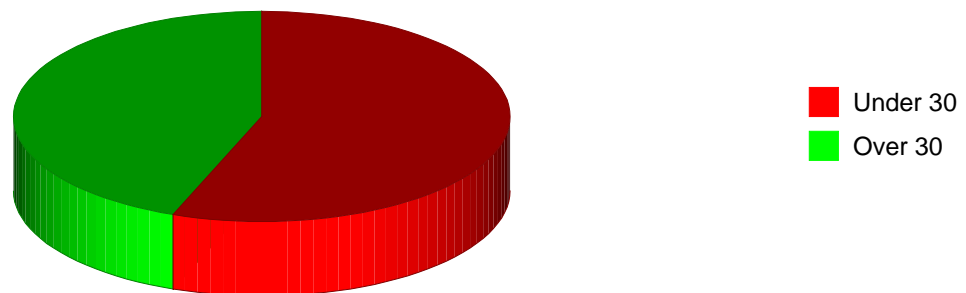
## 2.0 Situation Analysis

ICF has just begun their first year of operation. A comprehensive marketing plan will be instrumental in developing visibility to ensure future profitability. ICF offers a unique selection of "artsy," non-commercial movie rentals. This selection differs considerably from the normal stock that Blockbuster would carry.

## 2.1 Market Summary

ICF has collected good information about their market and knows a great deal of information about their archetype customer. ICF will leverage this information to determine how to better communicate with and serve their customers.

### Target Markets



**Table 2.1: Target Market Forecast**

Target Market Forecast	Growth	2001	2002	2003	2004	2005	CAGR
Potential Customers							
Under 30	12%	36,000	40,320	45,158	50,577	56,646	12.00%
Over 30	9%	28,500	31,065	33,861	36,908	40,230	9.00%
Total	10.70%	64,500	71,385	79,019	87,485	96,876	10.70%

### 2.1.1 Market Demographics

The profile for the ICF customer consists of the following geographic, demographic, and behavior factors:

#### Geographics

- The immediate geographic target is the city of Ann Arbor with a population of 123,000.
- A 15 mile radius is in need of ICF's services.
- The total targeted population is estimated at 64,500.

#### Demographics

- Male and female.
- Ages 18-55. This age range draws off a combination of university students and locals within the community.
- Have (or are getting) a college education and some with graduate degrees.
- An income over \$40,000 (except the students who earn far less but have a decent amount

- of disposable income).
- Non-conventional individuals.

## Behavior Factors

- Enjoy alternative, or less commercial, movie options.
- Prefer to be stimulated intellectually when viewing their films.
- Participate in cultural activities.

## 2.1.2 Market Needs

ICF is providing the customer with a wide range of high quality film rental options. ICF seeks to fulfill the following benefits that are important to their customers:

- **Selection:** A wide range of rental options that are unavailable at the larger, dominant rental chains.
- **Accessibility:** All rentals are available from ICF's centrally located storefront. Additionally, ICF is open a wide range of hours to accommodate customer's various schedules.
- **Customer service:** The patron will be impressed with the level of attention that they receive.
- **Competitive pricing:** All rentals will be priced competitively relative to the competition.

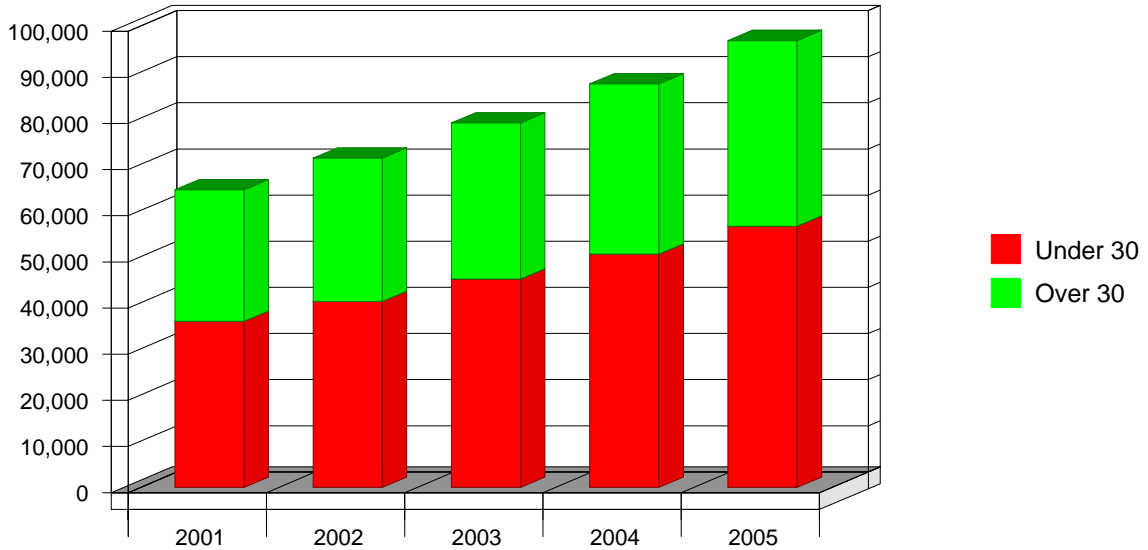
## 2.1.3 The Market and Trends

ICF is a specialty movie rental store that competes in the broader movie rental business. The industry can be characterized as the "big two," Hollywood Video and Blockbuster. To be sure, there are some independent video rental stores, generally in small neighborhoods and towns, but in general, the big gorillas control everything and target the middle, the mainstream.

The movie rental business can be further characterized by selection and rental turnover. If a store offers a good selection and has a large number of rental turnovers, then it is likely going to be successful. This is the gorilla's strategy. They support this strategy even more by selling some of their rentals as they become less popular to be able to reinvest the money into the newest releases. This last strategy only works with the mainstream market and not ICF's market because the mainstream market is attracted to what is new, the current releases. Once something has been out for a while, interest wanes. With ICF customers, the age of the video is irrelevant, it is the thematic quality, irrespective of popularity and newness that dictates acceptance.

There are two major chains, Blockbuster and Hollywood Video that are expanding throughout America, often at the expense of the "mom and pop" outfits who are unable to compete against the giants. Typically the giants will enter a town and over time drive the local, independently-owned shops out of business because of their large selection and commercialization that people favor. Blockbuster and Hollywood Video however only address one segment (albeit the major one) of the population, the segment that prefers commercial releases.

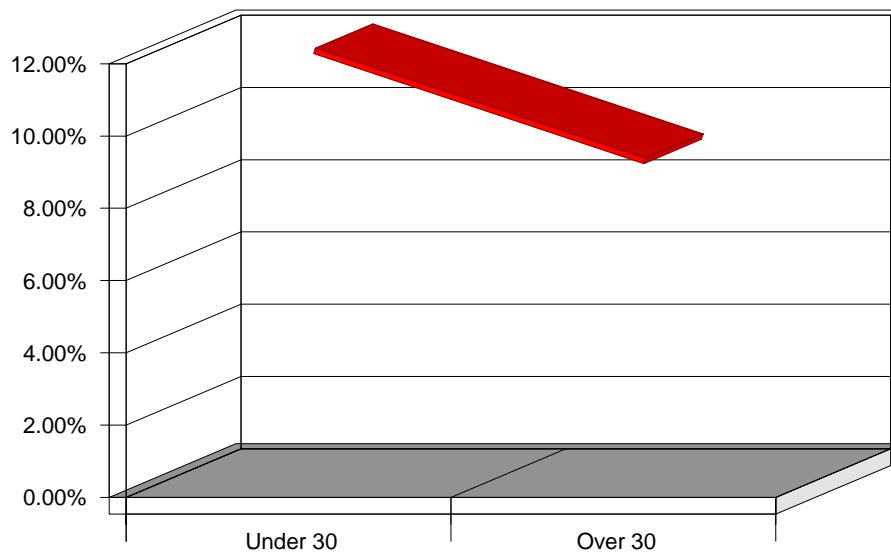
## Market Forecast



### 2.1.4 Market Growth

In 2000, the video rental industry had revenues exceeding \$7.3 billion dollars. The industry is forecasted to grow at 9% for the next several years. One major reason for this growth is the increasing costs of seeing movies out in theatres. It can cost upwards of \$20-\$25 for two people to see a movie in the theatre. These rising costs have driven demand for the video rental industry, which offers far more reasonable rates and a wider selection, although not as cutting edge.

## Target Market Growth



## 2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company, and describes opportunities and threats that ICF faces.

### 2.2.1 Strengths

- Strong relationships with distributors.
- Excellent staff who are well informed and customer attentive.
- A centrally-located store front.
- An unmatched selection.

### 2.2.2 Weaknesses

- The struggle to raise brand awareness.
- A limited budget to acquire customers.
- Not having the buying power that the giants have, increasing acquisition costs.

### 2.2.3 Opportunities

- A growing rift in the market between artsy and commercial films and the corresponding viewers.
- The opportunity to decrease customer acquisition costs over time as more customers are acquired through referrals.
- The ability to leverage the fact that the "giants" ignore the majority of the alternative/intellectual population segment.

### 2.2.4 Threats

- Competition from the giants if they decide to change their course and address the alternative crowd.
- A significant increase in movie theatre technology that makes the in-the-movie experience more difficult to replicate at home.
- Increased popularity of independent and foreign films, ensuring that the giants carry these titles.



## 2.3 Competition and Buying Patterns

Currently in Ann Arbor there are two different types of competitors:

1. **The industry gorillas:** This refers to Hollywood Video and Blockbuster. For all intent and purposes these two are indistinguishable. Both are large and very corporate in the sense that every store is the same, just like a McDonalds. Both stores compete on location, there is little that differentiates them. One guarantees that new releases will always be in stock, but you only get them for a two day rental. The other does not guarantee them in stock, but you get them for five days. For the gorillas, they concentrate the most energy on the new releases, this is what their customers seem to want.
2. **Local video rentals:** These stores are small, locally-owned companies that typically cater to a neighborhood. Generally, they do not specialize in any one thing, they usually have a wide range of offerings and the bulk of their customers live within blocks of the store. Ann Arbor has several of these.

People make video rental decisions based on a few factors, typically selection and convenience. If they want selection of the latest and most popular movies they go to the gorillas. If they do not rent movies that often and are more interested in convenience then they might visit the local video store.

## 2.4 Services

ICF will provide Ann Arbor with an alternative movie rental store, a service that is not yet offered in Ann Arbor. The current offerings of typical rental stores are based on popular, commercial releases. There is a market for alternative releases, evidenced by the popularity of the Monarch Arts Cinema which shows this exact genre of movies in a first run movie theatre format. In essence, ICF will be the home extension of the Monarch.

## 2.5 Keys to Success

- Creative selection.
- Passionate employees.
- Professionalism.
- Customer centric business model.

## 2.6 Critical Issues

ICF is still in the speculative stages as a retail establishment. Its critical issues are to continue to take a moderate fiscal approach; expand not for the sake of expansion but because it makes fiscal sense to.

## 3.0 Marketing Strategy

ICF's marketing strategy will be based on generating visibility of ICF with its targeted population segment. This will be achieved through a multi-faceted advertising campaign. The campaign will utilize advertisements in a local art/entertainment weekly guide, advertisements at the local artsy movie theatre, and promotional activities with a couple of local restaurants that have similar demographics.

### 3.1 Mission

Independent Choice Flicks' mission is to provide the customer with independent, non-commercial movies. We exist to attract and maintain customers. When we adhere to this maxim, everything else will fall into place. Our services will exceed the expectations of our customers by allowing them to find films that they never expected to find at any video store.

### 3.2 Marketing Objectives

- Increase repeat customers by 7% each quarter.
- Decrease customer acquisition costs by 8% per year.
- Increase brand equity, measured by the number of new customers that are already familiar with ICF and their niche before arrival into the store.

### 3.3 Financial Objectives

- At least 10% growth rate after the second year of operation.
- A 5% decrease in overhead costs per year for the first three years.
- Profitability by 18 months.

### 3.4 Target Marketing

ICF's customers can be divided into two general groups that are differentiated by age, over 30 and under 30.

- **Under 30:** This market segment has a diverse interest that certainly overlaps with the over 30 crowd. The under 30 movies might have more of a concentration on action, violence, drugs, sex, etc. This is not to say that the movies are about these subjects solely, it is just that these topics might relate better to someone under 30 than over 30.
- **Over 30:** This market segment has a bit more mature tastes, the humor may be more sophisticated, they are more likely to enjoy a foreign film relative to the under 30 group. Generally, the topics of the movies will reflect issues that this group is most used to or closer to their experiences.

ICF is focusing on these two groups because they are underserved in Ann Arbor. Currently, there are two large corporate rental chains, Hollywood Video and Blockbuster that hold the majority of the market. In order for them to be successful, they must concentrate on the middle of the market, the mean. This allows them to use economies of scale to drive down the costs of operating a movie rental business. While this works for the general population, it does not address the fringes at all. ICF is addressing the fringe movie rental market.

Please note that while the term fringe market sounds almost derogatory, in Ann Arbor it really is not. The alternative market in Ann Arbor is thriving, particularly relative to most other cities. Ann Arbor, demographically, is a highly educated population when compared to most cities. Alternative movies generally appeal to a more educated crowd. The masses can have their commercialized movies, they generally appreciate movies where they can watch without thinking. This is evidenced by the general popularity of television, mindless entertainment of no real thematic value and little cultural value.

## 3.5 Positioning

ICF will position themselves as an alternative to the large, sterile, commercial movie rental outlets. There is a large segment of Ann Arbor's population that appreciate non-commercial, artsy films that are not offered by the chains.

ICF's positioning will leverage their competitive edge of their attention to the customers in Ann Arbor. Their product offering is based on a need of Ann Arbor that is currently unfulfilled. While this approach only works with small applications, meaning it is not the best for a country-wide implementation, it is also costly. Time must be spent doing marketing research to determine where the unmet need is. This strategy is unrealistic for a large corporate chain.

It is ideal for ICF however. Ann Arbor has a large "arts" population that is currently not being addressed in the video rental market. ICF's competitive advantage is creating a store that fills a need specifically in Ann Arbor, in contrast to opening a general store that will have broad, pedestrian appeal.

ICF will meet this need by basing their selection of videos that are in general hard to find in Ann Arbor. ICF recognizes that by doing this they are decreasing the base of possible users. However, at the same time, they are developing loyalty among the smaller user base.

## 3.6 Strategy Pyramids

The marketing strategy will first seek to create customer awareness regarding the services offered, develop the customer base, and work toward building customer loyalty and referrals.

The message that ICF will seek to communicate is that they offer a quality, independent, non-commercial alternative to the norm of Blockbuster and Hollywood video. This message will be communicated through a variety of methods. The first is an advertising campaign in the Ann Arbor Weekly, an entertainment guide that serves the alternative crowd of Ann Arbor. This weekly has similar customer demographics as ICF so it will be well targeted.

The second method of communication will be with advertisements at the Monarch Arts Cinema, a local theatre that plays the same genre of films as ICF. The advertisements will be in the form of visual posters in the cinema as well as advertising within the trailers of the films.

The last method of communication will take the form of strategic relationships with various restaurants that have similar customers. The alliances will often include some sort of promotion that combines the services of both the restaurant and ICF.

## 3.7 Marketing Mix

ICF's marketing mix is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- **Pricing:** ICF's pricing scheme will be based on maintaining a competitive price relative to the giants. In addition, the store will offer deep discounts for midweek rentals to increase demand during these times.
- **Distribution:** All of the services will be distributed through ICF's storefront.
- **Advertising and Promotion:** The most successful advertising will be advertisements in the local theatre and weekly art guides as well as strategic alliances with select restaurants.
- **Customer Service:** Obsessive customer is the mantra. This will be accomplished regardless of the short-term cost, recognizing a happy customer ensures long-term profits.

## 3.8 Marketing Research

During the initial phases of the marketing plan development, several focus groups were held to provide ICF with insight into customer preferences. These focus groups provided ICF with a wealth of information regarding the attributes of the most prized customers, and insight into their decision-making processes.

An additional source of market research is a survey that was placed at the Monarch Arts Cinema capturing valuable feedback regarding questions of video rentals. Theses surveys were completed by customers at the theatre and were developed in part by a mathematics graduate student at the University of Michigan. Leveraging the graduate student's help was instrumental in developing a statistically significant survey instrument.

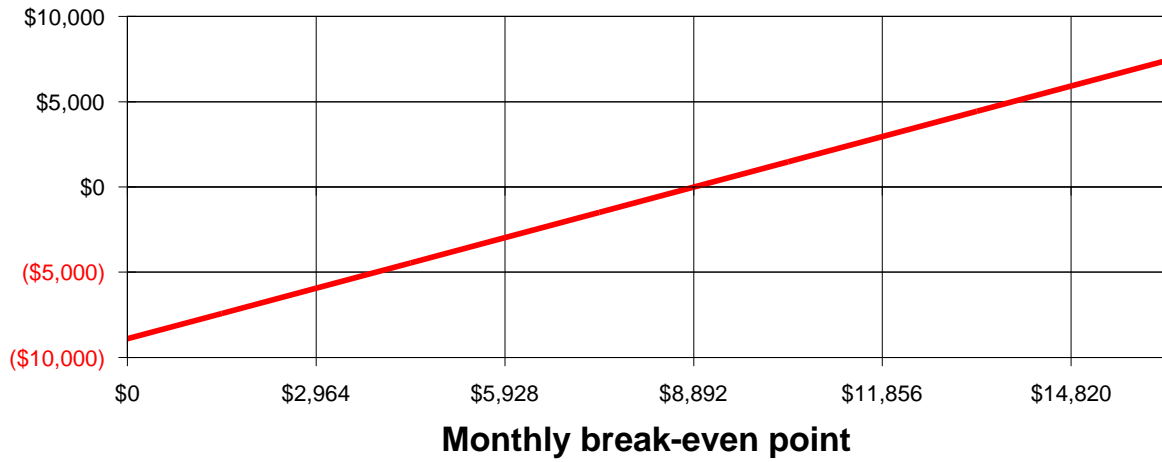
## 4.0 Financials, Budgets, and Forecasts

This section will offer a financial overview of ICF as it related to the marketing activities. ICF will address break-even analysis, sales forecasts, expenses forecasts, and how these link to the marketing strategy.

### 4.1 Break-even Analysis

The break-even analysis indicates that \$8,900 is needed in monthly revenue to reach the break-even point.

### Break-even Analysis



Break-even point = where line intersects with 0

**Table 4.1: Break-even Analysis**

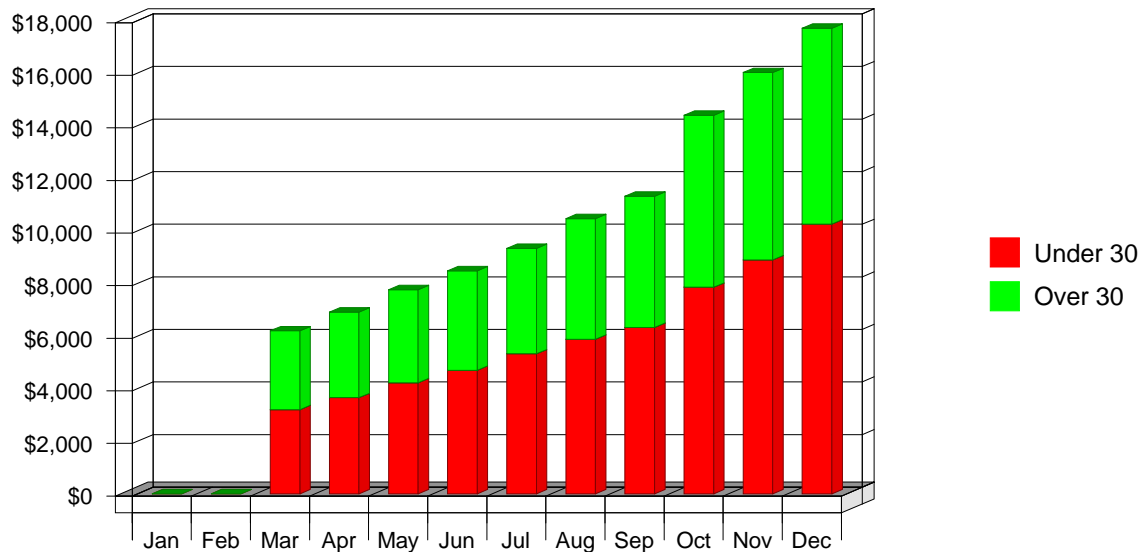
Break-even Analysis:	
Monthly Units Break-even	1,483
Monthly Sales Break-even	\$8,900
Assumptions:	
Average Per-Unit Revenue	\$6.00
Average Per-Unit Variable Cost	\$0.00
Estimated Monthly Fixed Cost	\$8,900

## 4.2 Sales Forecast

The first two months will be spent setting up the store and ordering inventory. There will not be any sales activity. During this time period ICF will be interviewing people with the expectation of bringing on board three part-time employees for the third month. By the fifth month, sales will be steadily increasing and ICF will have the need for a full-time employee. In addition to these employees, Janet will be working full time.

ICF expects a fairly linear sales growth pattern month to month.

### Monthly Sales Forecast



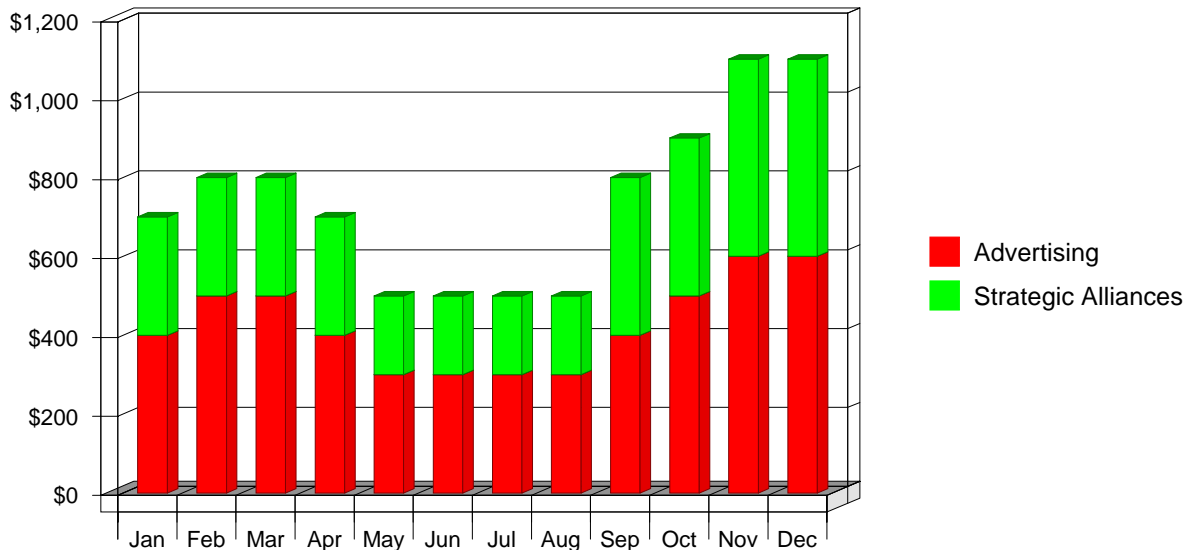
**Table 4.2: Sales Forecast**

Sales Forecast			
Sales	2001	2002	2003
Under 30	\$60,293	\$115,476	\$135,214
Over 30	\$48,291	\$85,475	\$95,878
Total Sales	\$108,584	\$200,951	\$231,092
Direct Cost of Sales	2001	2002	2003
Under 30	\$21,103	\$40,417	\$47,325
Over 30	\$16,902	\$29,916	\$33,557
Subtotal Cost of Sales	\$38,004	\$70,333	\$80,882

## 4.3 Expense Forecast

Marketing expenses are to be budgeted so they are higher in the early months when ICF is just opening as well as during the fall and winter when movie rentals increase.

### Monthly Expense Budget



**Table 4.3: Marketing Expense Budget**

Marketing Expense Budget	2001	2002	2003
Advertising	\$5,100	\$6,000	\$7,000
Strategic Alliances	\$3,800	\$5,000	\$6,000
<b>Total Sales and Marketing Expenses</b>	<b>\$8,900</b>	<b>\$11,000</b>	<b>\$13,000</b>
Percent of Sales	8.20%	5.47%	5.63%
Contribution Margin	\$61,680	\$119,618	\$137,210
Contribution Margin / Sales	56.80%	59.53%	59.37%

## 5.0 Controls

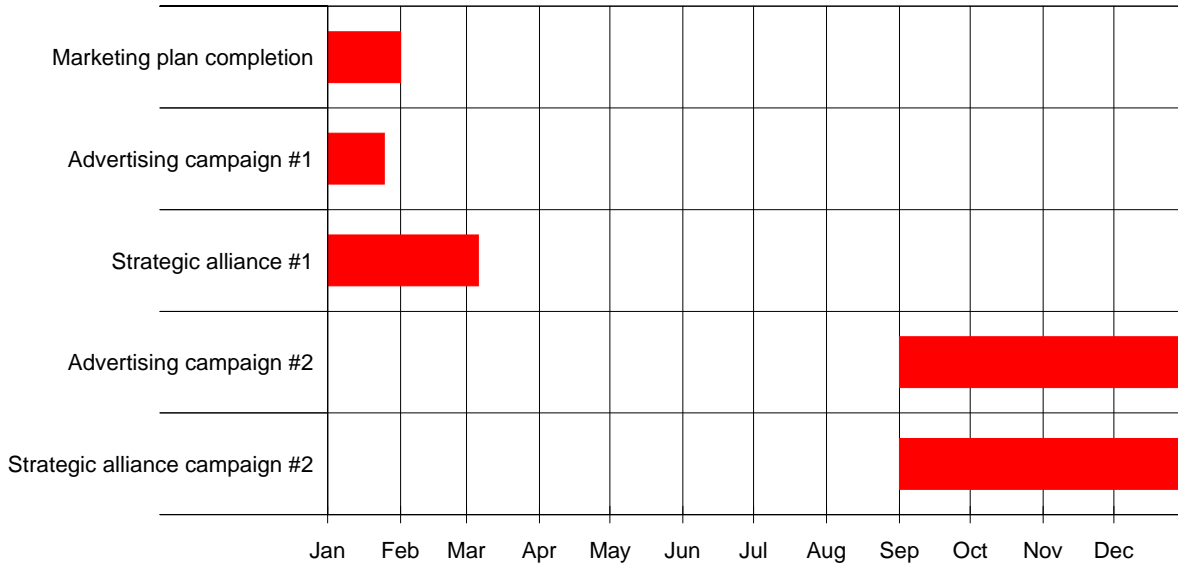
The purpose of ICF's marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual.
- Expenses: monthly and annual.
- Repeat business.
- Customer satisfaction.

### 5.1 Implementation Milestones

The following milestones identify the key marketing programs. It is important to accomplish each one on time, and on budget.

#### Milestones



**Table 5.1: Milestones**

Milestones	Plan					
Milestone	Start Date	End Date	Budget	Manager	Department	
Marketing plan completion	1/1/01	2/1/01				
Advertising campaign #1	1/1/01	4/31/01	\$1,800			
Strategic alliance #1	1/1/01	4/31/01	\$1,200			
Advertising campaign #2	9/1/01	12/31/01	\$2,100			
Strategic alliance campaign #2	9/1/01	12/31/01	\$1,800			
Totals			\$6,900			



## 5.2 Marketing Organization

Janet Sinemma will be responsible for all of the marketing activities that ICF will undertake.

## 5.3 Contingency Planning

### **Difficulties and risks:**

- Problems generating sufficient visibility.
- An overly aggressive entry into the artsy market by the corporate giants.
- Significant increases in costs for having to carry both VHS and DVD formats.

### **Worst case risks include:**

- Determining that the business cannot reach profitability.
- Having to liquidate equipment to cover liabilities.

## Appendix: Independant Choice Flicks

**Table 4.2 Sales Forecast**

Sales Forecast	Plan											
Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Under 30	\$0	\$0	\$3,200	\$3,654	\$4,215	\$4,698	\$5,321	\$5,874	\$6,325	\$7,854	\$8,898	\$10,254
Over 30	\$0	\$0	\$3,000	\$3,253	\$3,545	\$3,785	\$4,010	\$4,587	\$4,987	\$6,545	\$7,125	\$7,454
<b>Total Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,200</b>	<b>\$6,907</b>	<b>\$7,760</b>	<b>\$8,483</b>	<b>\$9,331</b>	<b>\$10,461</b>	<b>\$11,312</b>	<b>\$14,399</b>	<b>\$16,023</b>	<b>\$17,708</b>
Direct Cost of Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Under 30	\$0	\$0	\$1,120	\$1,279	\$1,475	\$1,644	\$1,862	\$2,056	\$2,214	\$2,749	\$3,114	\$3,589
Over 30	\$0	\$0	\$1,050	\$1,139	\$1,241	\$1,325	\$1,404	\$1,605	\$1,745	\$2,291	\$2,494	\$2,609
<b>Subtotal Cost of Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,170</b>	<b>\$2,417</b>	<b>\$2,716</b>	<b>\$2,969</b>	<b>\$3,266</b>	<b>\$3,661</b>	<b>\$3,959</b>	<b>\$5,040</b>	<b>\$5,608</b>	<b>\$6,198</b>

## Appendix: Independant Choice Flicks

**Table 4.3 Marketing Expense Budget**

Marketing Expense Budget	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Advertising	\$400	\$500	\$500	\$400	\$300	\$300	\$300	\$300	\$400	\$500	\$600	\$600
Strategic Alliances	\$300	\$300	\$300	\$300	\$200	\$200	\$200	\$200	\$400	\$400	\$500	\$500
<b>Total Sales and Marketing Expenses</b>	<b>\$700</b>	<b>\$800</b>	<b>\$800</b>	<b>\$700</b>	<b>\$500</b>	<b>\$500</b>	<b>\$500</b>	<b>\$500</b>	<b>\$800</b>	<b>\$900</b>	<b>\$1,100</b>	<b>\$1,100</b>
Percent of Sales	0.00%	0.00%	12.90%	10.13%	6.44%	5.89%	5.36%	4.78%	7.07%	6.25%	6.87%	6.21%
Contribution Margin	(\$700)	(\$800)	\$3,230	\$3,790	\$4,544	\$5,014	\$5,565	\$6,300	\$6,553	\$8,459	\$9,315	\$10,410
Contribution Margin / Sales	0.00%	0.00%	52.10%	54.87%	58.56%	59.11%	59.64%	60.22%	57.93%	58.75%	58.13%	58.79%