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## 1.0 Executive Summary

The Water Factory is a network marketing firm that sells Water Genie home water filtration systems. The Water Factory has chosen the network marketing business model as a way of creating a recurring revenue structure in a home business. Aych Tu-oh, the founder and owner has done significance amounts of research and has determined the filtered water market is a large, fast growing market. People are willing to pay up to five times the cost per gallon for water than they are for gasoline.

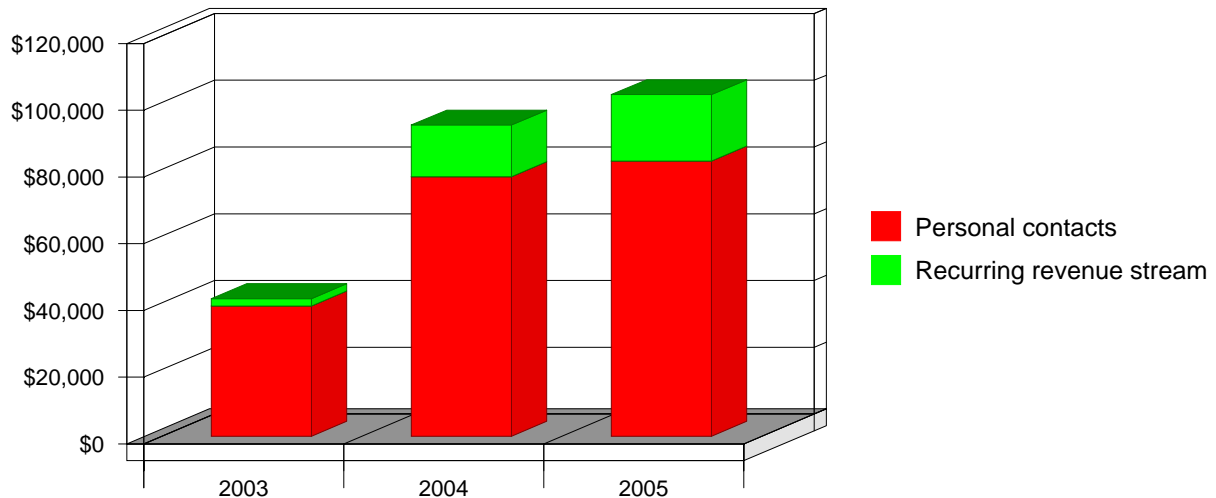
The Water Factory's mission is to provide customers with the finest quality water filtration units. We exist to attract and maintain customers. When we adhere to this maxim, everything else will fall into place. Our services will exceed the expectations of our customers.

By using the network marketing business model, Aych Tu-oh uses personal contacts as his target market. This is advantageous because a trust bond has been established already with these prospects, making it easier for Aych to turn the prospect into a lead. Additionally, network marketing creates recurring revenue streams through commissions that Aych earns for sales people he recruits. Aych also gets revenue for each sales person his sales people recruit. This revenue stream then turns his job into a business, a way to earn money even if he is not working.

The single objective is to position The Water Factory as the premier resource for home water filtration needs. The marketing strategy will be to generate sales to customers as well as transition some of the customers into sales associates.

The Water Factory will reach profitability by month 11 and have profits of \$16,000 by year three.

### Annual Sales Forecast



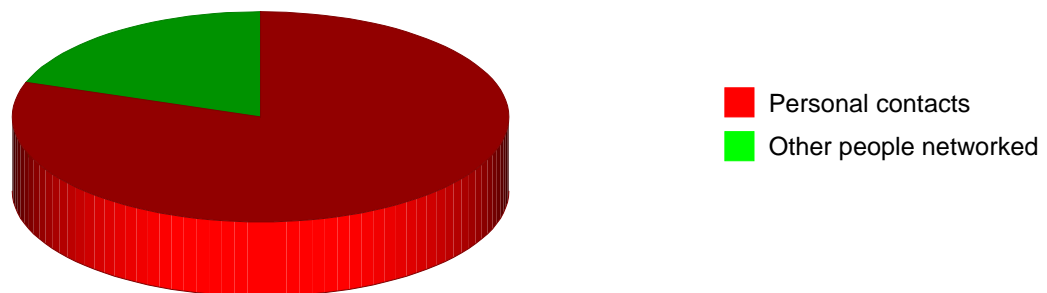
## 2.0 Situation Analysis

The Water Factory is entering its first year of operation. Developing a strategic marketing plan is necessary for the business to generate sufficient recurring revenue. The company offers high-quality home filtration systems. These systems provide the healthy, pleasant taste of filtered water for pennies on the dollar relative to bottled water. It also provides customers the convenience to fill up whenever they choose, in whatever type container they prefer.

## 2.1 Market Summary

The Water Factory possesses good information about the water filter market and knows a great deal about the common attributes of the preferred customers. This information will be leveraged to better understand who is served, their specific needs, and how The Water Factory can better serve them.

### Target Markets



**Table 2.1: Target Market Forecast**

| Target Market Forecast |        |  | 2003 | 2004 | 2005 | 2006 | 2007 | CAGR  |
|------------------------|--------|--|------|------|------|------|------|-------|
| Potential Customers    | Growth |  | 560  | 610  | 665  | 725  | 790  | 8.98% |
| Personal contacts      | 9%     |  | 137  | 148  | 160  | 173  | 187  | 8.09% |
| Other people networked | 8%     |  | 697  | 758  | 825  | 898  | 977  | 8.81% |
| Total                  | 8.81%  |  |      |      |      |      |      |       |

## 2.1.1 Market Demographics

The profile for The Water Factory's customer consists of the following geographic, demographic, and behavior factors:

### Geographics

- The immediate geographic target is the city of Pueblo, CO.
- A 45-mile geographic area is in need of the products.
- The total targeted population is 560.

### Demographics

- 61% female.
- Ages 27-54.
- Yuppies.
- 67% have attended at least some college.

### Behavior Factors

- Are cognizant about their health.
- Generally will purchase bottled water.
- Prefer to buy things through friends or personal contacts.

## 2.1.2 Market Needs

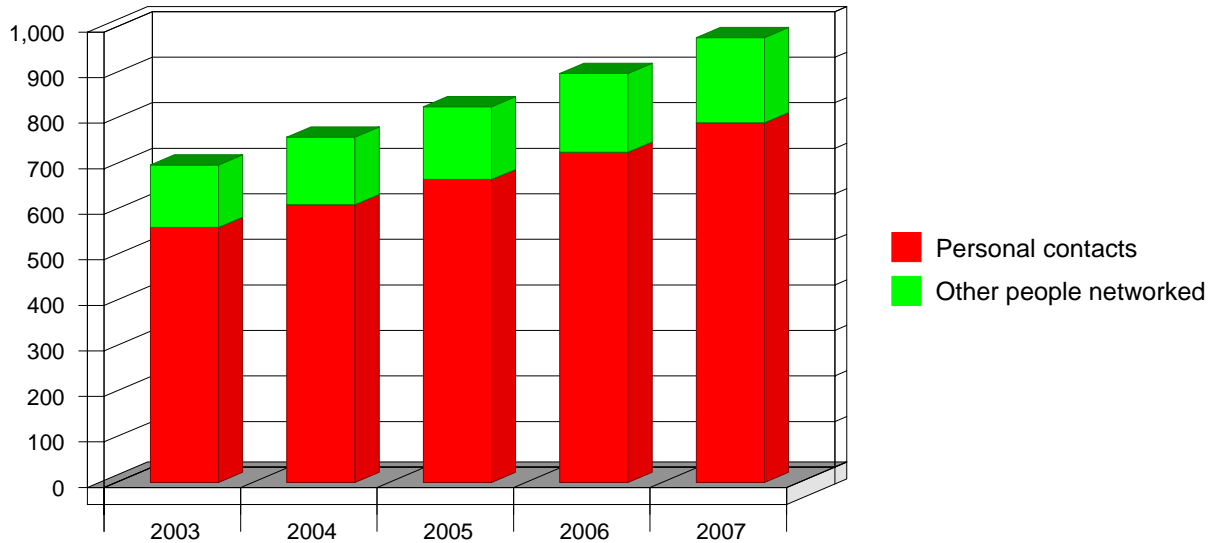
The Water Factory is providing high-quality water filtration systems that are far more economical than traditional bottled water. The Water Factory will offer customers the following important benefits.

- **Personal Service:** All interactions will be with the salesperson at a friendly, personal level.
- **High Quality:** Only quality products will be sold. Aych is leveraging his personal contacts and he has little desire to sell them junk and ruin his goodwill.

## 2.1.3 Market Trends

Network marketing has seen a large amount of growth within the last ten years, due primarily to the success of Amway. Network marketing business models have always been used, however, people tend to associate them with pyramid schemes or other less reputable ventures. Amway has legitimized the industry with a popular, convenient way to shop, and a legitimate, often profitable business opportunity.

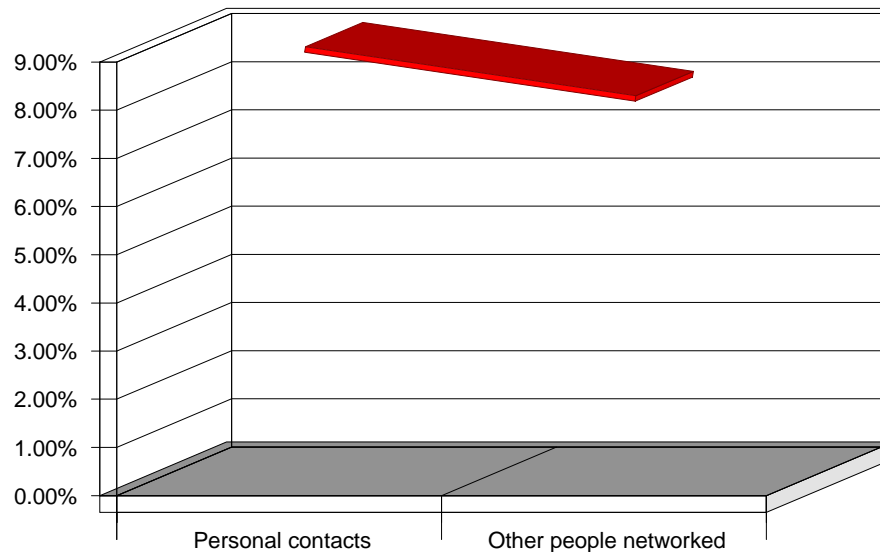
## Market Forecast



### 2.1.4 Market Growth

With the success of Amway, and to a lesser degree Shaklee, and Herbalife, there has been a sharp growth in this market space. Fifteen years ago this market was growing at 3% a year. For the last five years this space has grown at 9% and generates over \$9 billion in revenue.

## Target Market Growth



## 2.1.5 Industry Analysis

Network marketing (NM), also known as multi-level marketing is a growing industry. The large names in the industry are Amway, Shaklee, and Herblife. Other well-known companies that participate in the space are AT&T, Proctor & Gamble, and Coca Cola.

Several years ago NM was getting a bad rap because of its association with pyramid schemes. Pyramid schemes also use multi-levels in its business, however they did not have a viable product or service. They just had levels of people paying money to become a part of the pyramid with the promise that people would be paying them to become a lower part of the pyramid.

In the NM market, personal care products and household products dominate. However, there are also other services and products that are sold including travel arrangements, insurance services, pet care supplies, phone service, etc.

## 2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company, and describes the opportunities and threats facing The Water Factory.

### 2.2.1 Strengths

- A wide range of personal contacts.
- Focused customer attention.
- Quality products.

### 2.2.2 Weaknesses

- Limited by who you know.
- Labor intensive to make initial sales.
- Currently a limited product line.

### 2.2.3 Opportunities

- Multi-level business model that generates multiple revenue streams from associates.
- Customers are typically personal contacts with trust bonds already formed.



## 2.2.4 Threats

- Already established network of marketing organizations.
- A change in public perception regarding network marketing organizations.

## 2.3 Competition

There are several different sources of competition:

- Other network marketing companies selling water filters. There are four to seven other NM firms that also sell water filtration units. Prices can be competitive.
- Water filters sold through traditional retailers. There are approximately 10 different manufacturers of home filtration units. These units can be competitively priced, however, there is not the option to become a sales agent and get lower purchase prices for yourself as well as a future revenue stream.
- Office style water dispenser (typically leased). There are several companies that will lease these large stand-alone water coolers. The equipment for this solution is more expensive, since you are leasing a refrigeration unit to cool the water, and the cost per gallon is also more expensive.
- Bottled water: There are hundreds of companies that sell bottled water with the price ranging from \$1-\$5 a gallon, which is significantly more expensive.
- Soft drinks: While this is not a direct substitute for water, people drink soft drinks when they are thirsty. Besides the many negative health issues surrounding soft drink consumption, it is as pricey as bottled water.

Over the last five years the market for filtered water, typically in the form of bottled water, has exploded. Demand for filtered water has steadily grown and home water filtration units offer huge price advantages relative to bottled water alternatives.

## 2.4 Product Offering

The Water Factory sells Water Genie brand home water filtration system exclusively. Home water filters are used to improve the taste quality of the water, as well as to remove harmful impurities in the water. The Water Factory will sell three different models:

1. **The Carafe:** This model looks like a large water pitcher. When you fill up the pitcher the water passes through a filter, cleansing the water. When you pour the pitcher only the filtered water comes out. The price per gallon of water is 26 cents.
2. **The Faucet Mount:** This model looks like a large bulb that mounts on the end of the water faucet. When you desire filtered water, you rotate the filter toward you and filtered water comes out of a small hole. When you want unfiltered water to pass through, you rotate the filter away from you and unfiltered water comes out of a large hole. The price per gallon of filtered water is 12 cents.
3. **The Counter Mount:** This model is a 12 inch tall cylinder that resides on the counter, up to 14 inches away from the sink. There is a button near where the water exits the faucet that you push to allow filtered water to pass through. The price per gallon of filtered is six cents.

## 2.5 Keys to Success

The keys to success are:

- Building trust relationships.
- Professionalism.
- Developing sufficient recurring revenue.

## 2.6 Critical Issues

The Water Factory is beginning its first year of operation. The critical issue that it faces is to generate enough multi-level business so revenues are earned even when Aych is not out actively searching to make sales. With insufficient multi-level business, Aych will struggle to earn enough money.

## 3.0 Marketing Strategy

The Water Factory's marketing strategy is based on leveraging personal contacts. Of these contacts, some will become customers, while others will be interested in joining the organization as a lower level of the network marketing structure. With this in mind, Aych will increase his participation in the many different community organizations. The more active he is in the different organizations, the more people he is exposed to who could become customers or sales people.

The key to this marketing strategy is being an extrovert. Having the behavioral characteristic of an extrovert is necessary to be sufficiently assertive for developing sales.

## 3.1 Mission

The Water Factory's mission is to provide customers with the finest quality water filtration units. 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.

## 3.2 Marketing Objectives

- Generate a 10% increase of customers turned associates per year.
- Increase customer referrals by 3% a quarter.

## 3.3 Financial Objectives

- A double digit growth rate for each successive year.
- 65% of the revenue stream to come from recurring revenue (sales commissions from associates) by year three.

## 3.4 Target Markets

As a network marketing business, The Water Factory has an unusual market segment that it is targeting. With network marketing, sales and recruitment are done through personal contacts. This means that initially one would attempt to sell the product to people they know. Once these people are users, you would try to convert them from users to sales people for the products. This is also called multi-level marketing where a company sells products to consumers (typically personal contacts) via direct selling methods, and recruiting new people to help sell, and provides commissions for the managers of new recruits.

The Water Factory will call the market segment that will be targeted "personal contacts." Personal contacts typically take the form of the following groups (not an exhaustive list): past classmates, current and past neighbors, landlords, tenants, repair people, grocers, club members, sport partners, children's teachers, children's playmate parents, spouse contacts and fellow congregation members.

The Water Factory is focusing on this portion of the market because a trust relationship has already been developed between the personal contacts. Due to the nature of this business where you are selling directly to the consumer, it helps considerably to have a connection with the perspective customer. With a relationship already established, it is easier to sell the product because the prospective customers skepticism has been lowered. This then creates an opportunity when The Water Factory can explain the cost advantages of home water filters relative to bottled water.

Additionally, the other reason this market is targeted is because once the prospect is a customer, it is then easier to convert them into a sales agent for The Water Factory. The advantage of having sales representatives is the extra income stream of sales commissions. The advantage to the customer becoming a sales representative is a lower cost for their own product and a revenue stream from the sales of filters to their friends. If their friends then become sales agents, the customer then gets a second level of revenue. Lastly, for every new recruit that Aych's recruits bring in, Aych gets a commission. So Aych would get a commission for his sales, a commission for the sales of his recruits, and if they recruit someone, Aych will get a commission off of them as well.

## 3.5 Positioning

The Water Factory will position itself as a cost effective, customer centric organization servicing the market need for purified water. The Water Factory will leverage its competitive edge to achieve the desired positioning.

The Water Factory's competitive advantage is the ability to generate revenue streams for sellers of the products. This is the virtue of the network marketing system. With NM, if the buyer becomes a seller, they can receive their products at wholesale pricing and receive a commission for products that they sell. Additionally, if they recruit people to help them sell, they get a commission for every sale that their recruits make. At the same time Aych gets a commission of his recruits as well as his recruit's recruits. This is a relatively easy way to create a recurring revenue stream. This is The Water Factory's competitive advantage and will help them gain market share.

## 3.6 Strategies

The single objective is to position The Water Factory as the premier resource for home water filtration needs. The marketing strategy will be to generate sales to customers as well as the transition of some of the customers into sales associates.

The marketing strategy will be accomplished through personal networking. As indicated before, sales are made to people that have some sort of relationship with Aych. The networking activities will be generated primarily from the many different community organizations that Aych belongs to. These include: The Rotary, Kiwanis, Church groups, and others. Aych will be an active member in these organizations and by leveraging his outgoing personality style, Aych will have a perfect lead in to request a time in which they could sit down and chat about the business proposition.

## 3.7 Marketing Mix

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

- **Pricing:** The pricing scheme is designed to greatly undercut the per gallon cost of purified water when compared to the price of bottled water. Additionally, the pricing will be competitive to the other home filtration systems currently on the market.
- **Distribution:** Aych or (or his associates) will be responsible for the distribution of the product to the customer's home.
- **Advertising and Promotion:** The marketing business model is based on networking. This will be done in the context of the many different community organizations that Aych is active in.
- **Customer Satisfaction:** This element of the marketing mix will be attended to with the utmost in attention. One of the main premises of the business model is generating sales based on previously established trust relationships. Therefore, The Water Factory will ensure total customer satisfaction to safeguard future sales as well as the relationship.

## 3.8 Marketing Research

As part of Aych's senior thesis for the completion of his MBA, he studied the effectiveness of network marketing organizations. His research explored the financial models that NM employs as well as customer's preferences and perceptions regarding NM.

Since the success of NM businesses are so dependant on the customers, research regarding the customers was very important. His thesis provided him with valuable insight as to why NM would be successful and what concerns people have that make them cautious about purchasing from a NM organization.

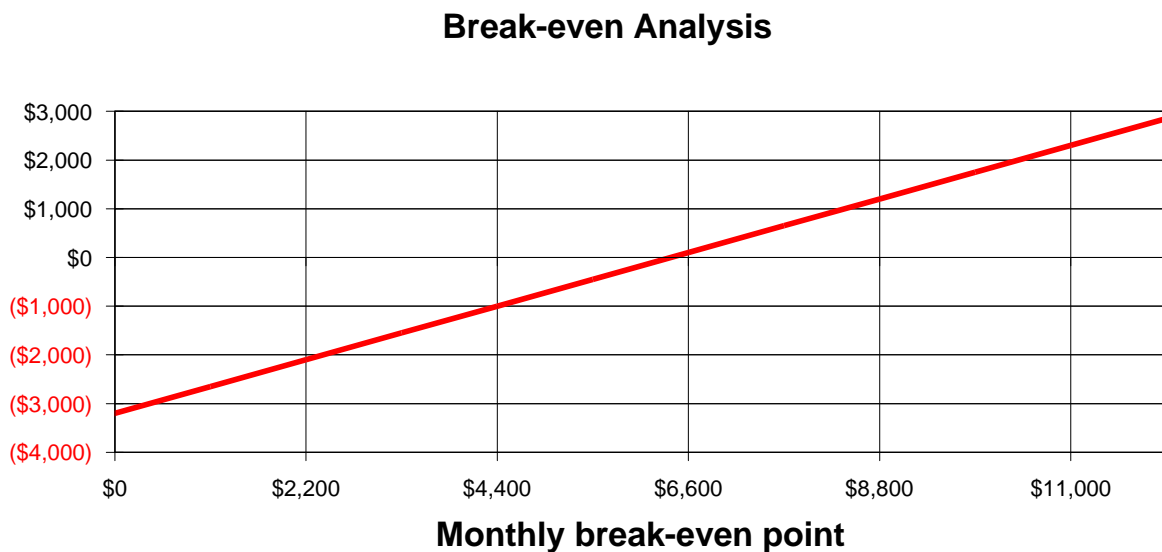
Aych discovered that although some customers have the erroneous perception that NM is related to pyramid schemes, this perception is changing with the mainstream acceptance of Amway and other successful NM companies. Additionally, many customers were drawn to the NM business model because of the sense of more personalized attention. With this in mind, Aych will be emphasizing this aspect of his business.

## 4.0 Financials

This section will offer a financial overview of The Water Factory as it relates to the marketing activities. The Water Factory will address break-even analysis, sales forecasts, expenses forecasts, and how they link to the marketing strategy.

### 4.1 Break-even Analysis

The break-even analysis indicates that \$6,400 will be needed in monthly revenue to reach the break-even point.



Break-even point = where line intersects with 0

**Table 4.1: Break-even Analysis**

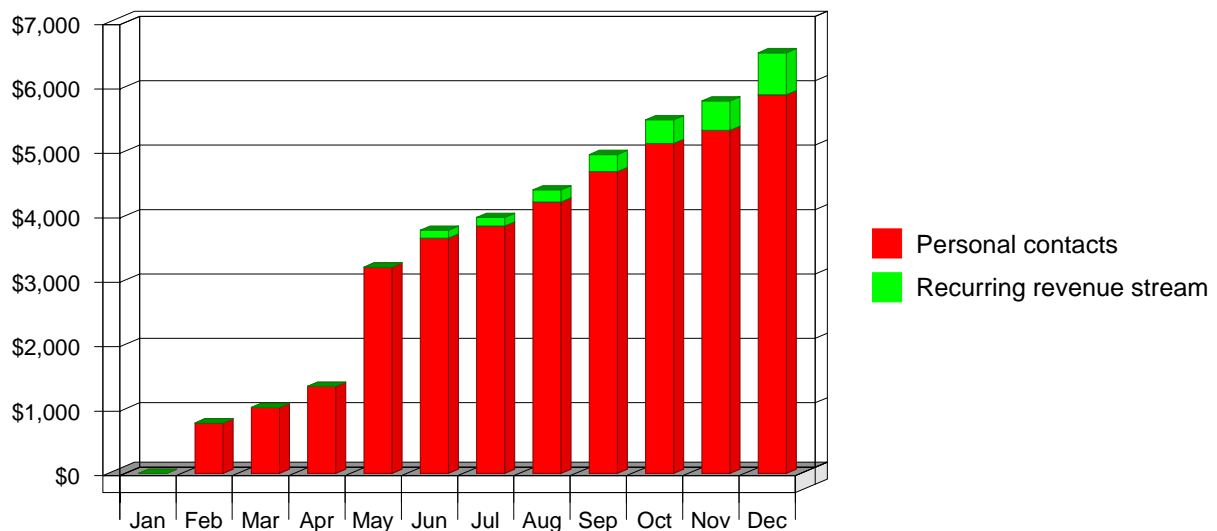
|                                |          |
|--------------------------------|----------|
| Break-even Analysis:           |          |
| Monthly Units Break-even       | 64       |
| Monthly Sales Break-even       | \$6,400  |
| Assumptions:                   |          |
| Average Per-Unit Revenue       | \$100.00 |
| Average Per-Unit Variable Cost | \$50.00  |
| Estimated Monthly Fixed Cost   | \$3,200  |

## 4.2 Sales Forecast

The first month will be spent setting up the home office. There will be no sales activity. Additionally, Aych Tu-oh will be ordering a few products to use as samples.

The second month will be the first month of sales. During this month Aych Tu-oh will have signed a few people up and revenue will be trickling in. It will not be until month five when revenue begins to get strong. Month six will be the first month when some of the recurring revenue will come in from Aych's recruited sales people.

### Monthly Sales Forecast



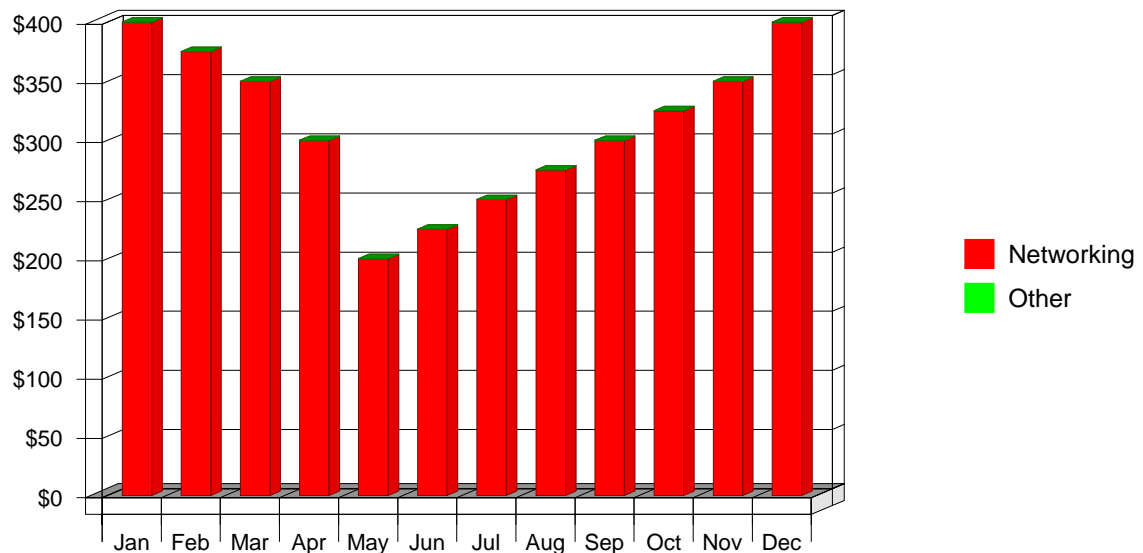
**Table 4.2: Sales Forecast**

|                          |          |          |           |
|--------------------------|----------|----------|-----------|
| Sales Forecast           |          |          |           |
| Sales                    | 2003     | 2004     | 2005      |
| Personal contacts        | \$39,091 | \$77,854 | \$82,547  |
| Recurring revenue stream | \$2,189  | \$15,447 | \$19,874  |
| Total Sales              | \$41,280 | \$93,301 | \$102,421 |
| Direct Cost of Sales     | 2003     | 2004     | 2005      |
| Personal contacts        | \$19,546 | \$38,927 | \$41,274  |
| Recurring revenue stream | \$0      | \$0      | \$0       |
| Subtotal Cost of Sales   | \$19,546 | \$38,927 | \$41,274  |

## 4.3 Expense Forecast

The marketing expenses will be spread fairly evenly throughout the year. The expenses will be mostly made up of organizational dues, however Aych will be spending some of his marketing budget on activities that support his networking campaign.

**Monthly Expense Budget**



**Table 4.3: Marketing Expense Budget**

|                                    |          |          |          |
|------------------------------------|----------|----------|----------|
| Marketing Expense Budget           | 2003     | 2004     | 2005     |
| Networking                         | \$3,750  | \$4,500  | \$5,000  |
| Other                              | \$0      | \$0      | \$0      |
| <hr/>                              |          |          |          |
| Total Sales and Marketing Expenses | \$3,750  | \$4,500  | \$5,000  |
| Percent of Sales                   | 9.08%    | 4.82%    | 4.88%    |
| Contribution Margin                | \$17,985 | \$49,874 | \$56,148 |
| Contribution Margin / Sales        | 43.57%   | 53.45%   | 54.82%   |

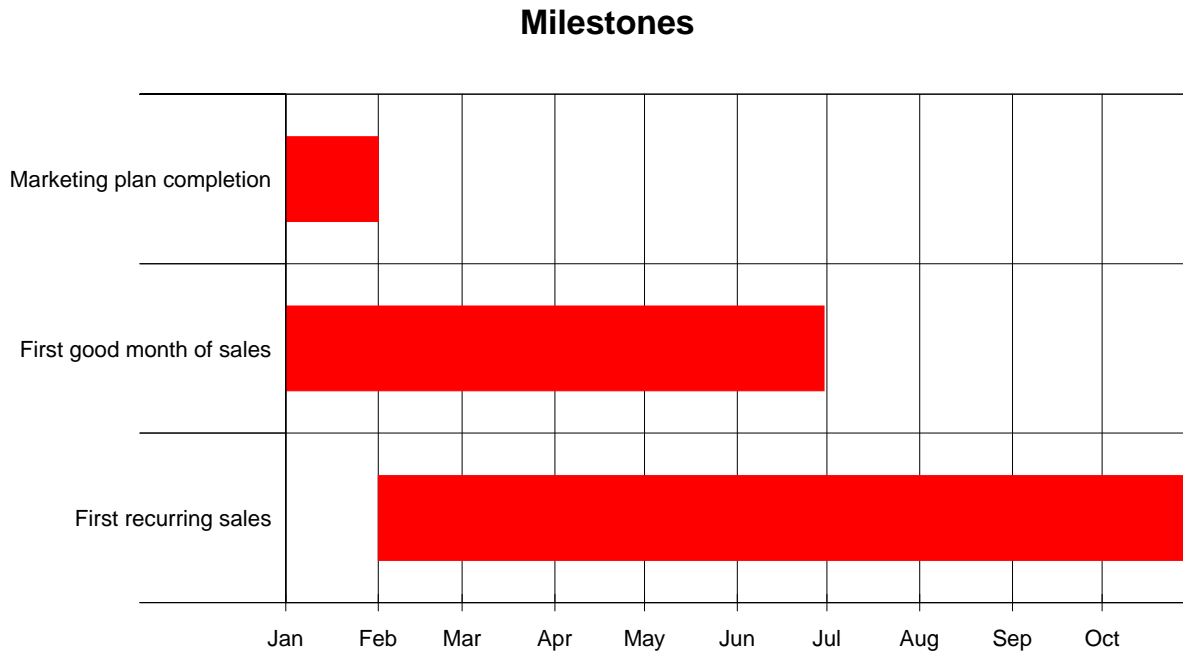
## 5.0 Controls

The purpose of the marketing plan is to serve as a guide for the organization as well as a mechanism where current performance can be tracked and evaluated. The following areas will be monitored:

- Revenue: monthly and annual.
- Percentage of conversion of customers into associates.
- Referral rate.

## 5.1 Implementation

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



**Table 5.1: Milestones**

| Milestones                | Plan       |          | Budget | Manager | Department |
|---------------------------|------------|----------|--------|---------|------------|
| Milestone                 | Start Date | End Date |        |         |            |
| Marketing plan completion | 1/1/03     | 2/1/03   |        | Aych    |            |
| First good month of sales | 1/1/03     | 6/30/03  |        | Aych    |            |
| First recurring sales     | 2/1/03     | 10/30/03 |        | Aych    |            |
| Totals                    |            |          | \$0    |         |            |

## 5.2 Marketing Organization

Aych will be solely responsible for the marketing activities.



## 5.3 Contingency Planning

Difficulties and Risks:

- Problems sufficient levels of associates for the organization.
- The realization that water filtration systems is not a large enough product portfolio.
- Worst case risks include: Determining that the business cannot support itself as an ongoing basis.
- The need to find other part time work to sustain Aych.

## Appendix: The Water Factory

**Table 4.2 Sales Forecast**

| Sales Forecast           | Plan |       |         |         |         |         |         |         |         |         |         |         |
|--------------------------|------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales                    | Jan  | Feb   | Mar     | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     |
| Personal contacts        | \$0  | \$784 | \$1,025 | \$1,354 | \$3,204 | \$3,654 | \$3,841 | \$4,215 | \$4,687 | \$5,124 | \$5,325 | \$5,878 |
| Recurring revenue stream | \$0  | \$0   | \$0     | \$0     | \$0     | \$125   | \$135   | \$187   | \$265   | \$365   | \$458   | \$654   |
| Total Sales              | \$0  | \$784 | \$1,025 | \$1,354 | \$3,204 | \$3,779 | \$3,976 | \$4,402 | \$4,952 | \$5,489 | \$5,783 | \$6,532 |
| Direct Cost of Sales     | Jan  | Feb   | Mar     | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     |
| Personal contacts        | \$0  | \$392 | \$513   | \$677   | \$1,602 | \$1,827 | \$1,921 | \$2,108 | \$2,344 | \$2,562 | \$2,663 | \$2,939 |
| Recurring revenue stream | \$0  | \$0   | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     |
| Subtotal Cost of Sales   | \$0  | \$392 | \$513   | \$677   | \$1,602 | \$1,827 | \$1,921 | \$2,108 | \$2,344 | \$2,562 | \$2,663 | \$2,939 |

## Appendix: The Water Factory

**Table 4.3 Marketing Expense Budget**

| Marketing Expense Budget           | Jan     | Feb    | Mar    | Apr    | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     |
|------------------------------------|---------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Networking                         | \$400   | \$375  | \$350  | \$300  | \$200   | \$225   | \$250   | \$275   | \$300   | \$325   | \$350   | \$400   |
| Other                              | \$0     | \$0    | \$0    | \$0    | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     |
| Total Sales and Marketing Expenses | \$400   | \$375  | \$350  | \$300  | \$200   | \$225   | \$250   | \$275   | \$300   | \$325   | \$350   | \$400   |
| Percent of Sales                   | 0.00%   | 47.83% | 34.15% | 22.16% | 6.24%   | 5.95%   | 6.29%   | 6.25%   | 6.06%   | 5.92%   | 6.05%   | 6.12%   |
| Contribution Margin                | (\$400) | \$17   | \$163  | \$377  | \$1,402 | \$1,727 | \$1,806 | \$2,020 | \$2,309 | \$2,602 | \$2,771 | \$3,193 |
| Contribution Margin / Sales        | 0.00%   | 2.17%  | 15.85% | 27.84% | 43.76%  | 45.70%  | 45.41%  | 45.88%  | 46.62%  | 47.40%  | 47.91%  | 48.88%  |