

22

# Managing a Holistic Marketing Organization

## Marketing Management:

An Asian Perspective  
(5<sup>th</sup> edition)

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## Managing a Holistic Marketing Organization

# 22

Healthy long-term growth for a brand requires that the marketing organization be managed properly. Holistic marketers must engage in a host of carefully planned, interconnected marketing activities and satisfy an increasingly broader set of constituents.<sup>1</sup> They must also consider a wider range of effects of their actions. Corporate social responsibility and sustainability have become a priority as organizations grapple with the short- and long-term effects of their marketing. Some firms have embraced this new vision of corporate enlightenment and made it the very core of what they do. Consider L'Oréal.



# Learning Objectives:

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- Understand what are the important trends in marketing practices
- Understand what are the keys to effective internal marketing
- Understand how companies can be responsible social marketers



# Learning Objectives:

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- Understand how a company can improve its marketing skills
- Understand what tools are available to help companies monitor and improve their marketing activities



Trends in Marketing Practices

## A L'Oreal ad feature Chinese film star Gong Li

- ❖ \$14b company
- ❖ Culture, Parisian origins
- ❖ Customers feel special
- ❖ Innovative products
- ❖ Glamorous endorsers
- ❖ Premium pricing
- ❖ Enticing slogan:

**“Because You’re  
Worth It”**

# Trends in Marketing Practices

Ways companies restructure business & marketing practices:

- 1) *Reengineering*
- 2) *Outsourcing*
- 3) *Benchmarking*
- 4) *Supplier partnering*
- 5) *Customer partnering*
- 6) *Merging*
- 7) *Globalizing*
- 8) *Flattening*
- 9) *Focusing*
- 10) *Accelerating*
- 11) *Empowering*



# Trends in Marketing Practices

- ◆ Marketing role changing
- ◆ No longer sole ownership of customer interactions
- ◆ Integrate all customer-facing processes
  - Customers one face & hear one voice



# Internal Marketing

- ◆ A company can have an excellent marketing department, yet fail at marketing.
- ◆ Much depends upon how the other company departments view customers.
- ◆ Only when *all employees* realize that their jobs are to create, serve, and satisfy customers does the company become an effective marketer.

# Internal Marketing



- ◆ Internal marketing
  - All in company buy marketing concepts & goals
  - Choose, provide & communicate customer value
- ◆ Focus on key processes
- ◆ Departments - barrier - smooth performance of crucial processes

## R&D

- ◆ Listen to customers' problems
- ◆ Benchmark competitors' products
- ◆ Improve & refine product - market feedback

## Purchasing

- ◆ Proactive search for best suppliers
- ◆ Long-term supplier - few but reliable & high-quality
- ◆ Quality not compromised for price savings

## Manufacturing

- ◆ Invite & visit customers - how they use products
- ◆ Ongoing search - faster, lower costs, improve quality



# Characteristics of Customer-Driven Company Departments

## Marketing

- ◆ Study customer in well-defined segments
- ◆ Winning offerings for each target
- ◆ Ongoing ideas for new products, improvements
- ◆ All - customer-centered in thinking & practice

## Sales

- ◆ Specialized knowledge of customer's industry
- ◆ Feed back customers' feedback to product development

## Logistics

- ◆ Consistent high standard - service delivery time
- ◆ Customer service - knowledgeable & friendly





# Characteristics of Customer-Driven Company Departments

## Accounting

- ◆ Periodic profitability reports - product, market etc
- ◆ Invoices tailored to customer needs

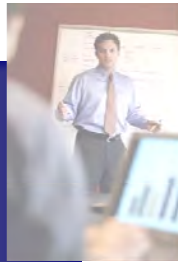
## Finance

- ◆ Support marketing expenditures - investments
- ◆ Tailor package to customers' financial needs



# Internal Marketing

## *- Organizing the Marketing Department*



### FUNCTIONAL ORGANIZATION

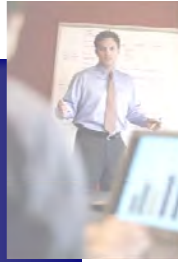
- ◆ Functional specialists - coordinates activities
- ◆ Main advantage
  - Administrative simplicity
- ◆ Disadvantage:
  1. Challenge - smooth internal work relations
  2. Less effective - products & markets increase
  3. Inadequate planning - some product, market
  4. Functional group competes - budget, status



**Figure 22.1 Functional Organization**

# Internal Marketing

## - *Organizing the Marketing Department*

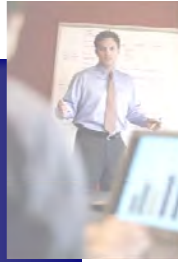


### GEOGRAPHIC ORGANIZATION

- ◆ Sales in national market - organize along geographic lines
- ◆ *Area market specialists*
  - Support sales - high-volume markets
- ◆ Improved information & marketing research technologies - regionalization

# Internal Marketing

## *- Organizing the Marketing Department*



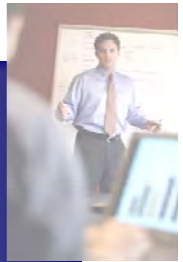
### PRODUCT- OR BRAND-MANAGEMENT ORGANIZATION

#### 1<sup>st</sup> alternative:

- ◆ Variety of products & brands - establish product- (or brand-) management organization
- ◆ Makes sense - if products different, or functional organization cannot handle

# Internal Marketing

## - *Organizing the Marketing Department*



- ◆ Product & brand management - **hub-&-spoke system**
- ◆ *Tasks managers perform:*
  1. Long-range & competitive product strategy
  2. Marketing plan & sales forecast
  3. Work with ad & merchandise agencies
  4. Increase sales & distributors' support
  5. Gather market intelligence
  6. Improve product - changing market needs

Figure  
22.2

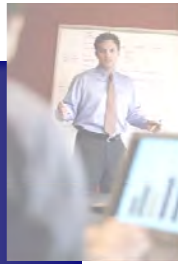
## The Product Manager's Interactions





# Internal Marketing

## *- Organizing the Marketing Department*

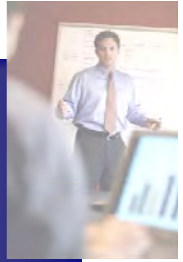


### **Disadvantages:**

- 1) Managers lack authority
- 2) Managers - product expert, not function
- 3) Product management system - costly
- 4) Managers manage brand - short time
- 5) Market fragmentation - hard to form national strategy
- 6) Managers build market share not customer relationship

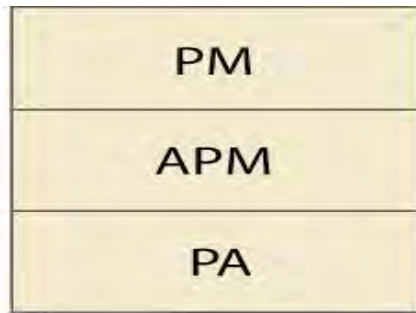
# Internal Marketing

## *- Organizing the Marketing Department*

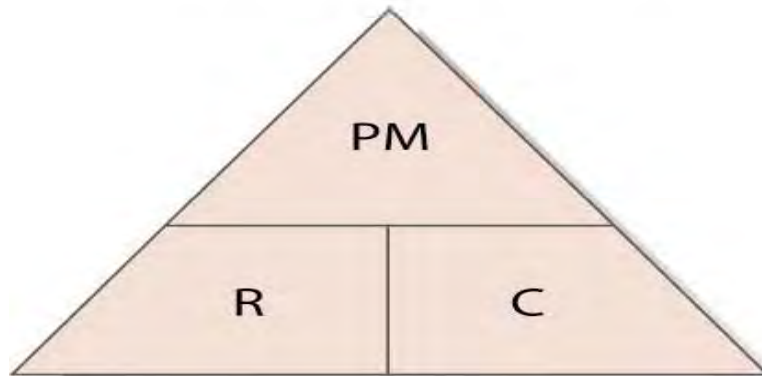


### 2<sup>nd</sup> alternative:

- ◆ Product managers to *product teams*
- ◆ 3 product-team structures:
  1. Vertical product team
  2. Triangular product team
  3. Horizontal product team



(a) Vertical Product Team



(b) Triangular Product Team



(c) Horizontal Product Team

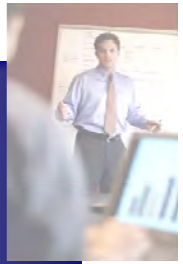
Figure 22.3

## Three Types of Product Teams

- PM = product manager
- AP = associate product manager
- PA = product assistant
- R = market researcher
- C = communication specialist
- S = sales manager
- D = distribution specialist
- F = finance/accounting specialist
- E = engineer

# Internal Marketing

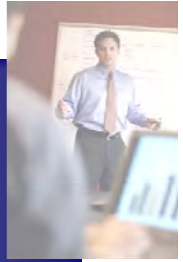
## *- Organizing the Marketing Department*



- ◆ Triangular & horizontal approaches favored
- ◆ **Brand asset management team (BAMT):** key personnel from major functions affecting brand's performance
- ◆ Different from way brands traditionally handled

# Internal Marketing

## - *Organizing the Marketing Department*



### 3<sup>rd</sup> alternative:

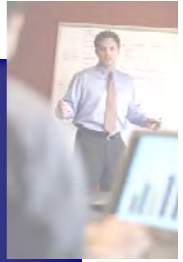
- ◆ Remove managers for minor products
- ◆ Assign  $\geq 2$  products to each manager
- ◆ Feasible if  $\geq 2$  products - similar needs

### 4<sup>th</sup> alternative:

- ◆ *Category management*
  - Focus - product categories - manage brands

# Internal Marketing

## *- Organizing the Marketing Department*



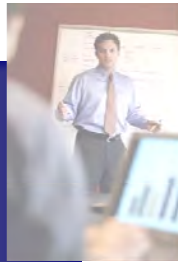
### Advantages of category management:

- ◆ All categories receive adequate resources
- ◆ Improve coordination
- ◆ Increasing power of trade



# Internal Marketing

## - *Organizing the Marketing Department*

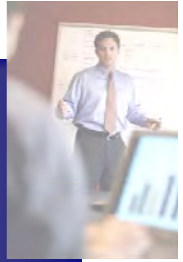


### MARKET-MANAGEMENT ORGANIZATION

- ◆ Customers - different user groups - distinct preferences & practices
- ◆ Main advantage
  - Meet needs of distinct groups
- ◆ *Market-centered organizations*
  - Along market lines
- ◆ *Customer-management organization*
  - Individual customers not mass market

# Internal Marketing

## *- Organizing the Marketing Department*



### MATRIX-MANAGEMENT ORGANIZATION

- ◆ Many products into many markets
- ◆ Minus
  - Costly & creates conflicts

		Market Managers			
		Menswear	Women's wear	Home furnishings	Industrial markets
Product Managers	Rayon				
	Acetate				
	Nylon				
	Orlon				
	Dacron				

**Figure 22.4**  
**Product- /Market-Management Matrix System**

# Internal Marketing

## *- Relations with Other Department*



- ◆ Interdepartmental relations – **conflicts**
- ◆ Each business function- impact on customer satisfaction
- ◆ Marketing to coordinate:
  1. Internal marketing
  2. Marketing with other functions to serve the customer

# Internal Marketing

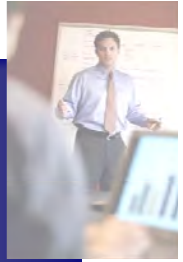
## - Relations with Other Department



- ◆ Little agreement on marketing influence & authority over other departments
- ◆ Potential negative reactions marketing receive from different functional groups:
- ◆ Engineers distrust marketing request for models, custom components
- ◆ Purchasing executives see marketing insists on too high a quality for materials & components
- ◆ Financial executives suspect marketing forecasts are self-serving
- ◆ Accountants see marketing - lax - sales reports on time

# Internal Marketing

## *- Relations with Other Department*

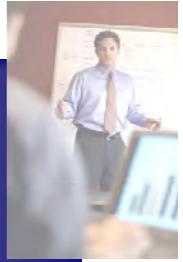


- ◆ Balanced orientation of functions - in company's best interests HOW?
  1. Joint seminars
  2. Joint committees & liaison personnel
  3. Personnel exchange programs
  4. Analytical methods
  5. Best solution: *function-to-function* meeting
- ◆ Understand & (constructively) collaborate



# Internal Marketing

## *- Building a Creative Marketing Organization*



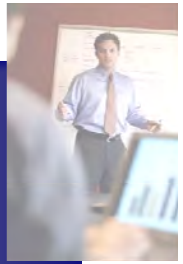
- ◆ To be true market-driven companies:
  1. Develop company-wide passion for customers
  2. Organize around customer segments not products
  3. Deep understanding of customers - qualitative & quantitative research
- ◆ Payoff: higher productivity
- ◆ But require change in jobs & departments

To create a market & customer-focused company :

1. *Convince management of need to be customer-focused*
2. *Appoint senior marketing & marketing task force*
3. *Get outside help & guidance*
4. *Change company's reward measurement & system*
5. *Hire strong marketing talent*
6. *Develop strong in-house marketing training programs*
7. *Install a modern marketing planning system*
8. *An annual marketing excellence recognition program*
9. *Shift from a department to a process-outcome focus*
10. *Empower the employees*

# Internal Marketing

## *- Building a Creative Marketing Organization*



- ◆ Hypercompetitive economy - customer-oriented, not enough - must be creative
- ◆ Copy advantages - increasing speed
- ◆ Margins fall when firms - more alike
- ◆ Build capability in strategic innovation & imagination
- ◆ Companies must watch trends & be ready to capitalize on them

### Criticisms of assumptions on marketing concept:

- 1) If too much attention to what consumers say - make products similar to existing ones; marketer's job - go beyond what customers say they want
- 2) Assumes consumers have clear goals, pursues rationally. But consumers - all kinds of forces. marketers need to create dramas, new realities, artificial scarcities, celebrations
- 3) Implies submissiveness, all out to please customers. But best & loved marketers tease, overdramatize

# Marketing **INSIGHT** Fueling Strategic Innovation

How to build capability for strategic innovation?

- 1) Hire unusually creative marketers
- 2) Train employees - creativity techniques
- 3) List observable trends- single parents - implications
- 4) List unmet needs, imagine new offerings/solutions
- 5) Rewards & prizes for new ideas
- 6) Meal discussions on ideas to improve business
- 7) Employees to critique company's & competitors' products & services, & company's beliefs
- 8) Occasionally hire external creative resources

# Socially Responsible Marketing

- ◆ Effective internal marketing to be matched by a strong sense of social responsibility
- ◆ Forces that drive firms to higher level of corporate social responsibility:
  1. Rising customer expectations
  2. Changing employee expectations
  3. Government legislation & pressure
  4. Investor interest in social criteria
  5. Changing business procurement practices

# Socially Responsible Marketing

- ◆ Success with business, customer & stakeholders - high standards of business & marketing conduct
- ◆ Business - often under attack - situations - tough ethical dilemmas
- ◆ Today - unethical companies - greater risk of being exposed - the Internet



# Breakthrough Marketing: Starbucks

- ◆ Tells how Starbucks' success comes from its products and services, and the company's enlightened sense of responsibility that manifests itself through its charities, and "fair-trade" export practices.



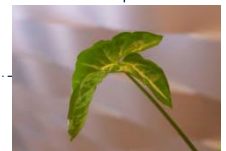
# Socially Responsible Marketing

## - *Corporate Social Responsibility*

### ◆ Raising level of socially responsible marketing 3-pronged attack:

#### 1) **LEGAL BEHAVIOR**

- Laws to define clearly illegal, antisocial, or anticompetitive practices
- Ensure employee knows & observes laws



# Socially Responsible Marketing

## - *Corporate Social Responsibility*

### 2) **ETHICAL BEHAVIOR**

- Code of ethics
- Observe ethical & legal guidelines

### 3) **SOCIAL RESPONSIBILITY BEHAVIOR**

- Practice “social conscience”
- Many now ask: Is company socially & environmentally responsible?
- Before deciding companies to buy from, invest in & work for



## Table 22.1

### Top 10 Companies for Social Responsibility

Overall
1. BP
2. Barclays
3. ENI
4. HSBC
5. Vodafone
6. Royal Dutch Shell
7. Peugeot
8. HBOS
9. Chevron
10. Daimler Chrysler

# Sustainability

- ◆ Sustainability is the importance of meeting humanity's needs without harming future generations, has risen to the top of many corporate agendas.
  - Embracing sustainability helps avoid the negative consequences of environmental disasters, political protests, and human rights or workplace abuses.
  - Investors are demanding more concrete information about what firms are doing to achieve sustainability.

# Socially Responsible Marketing

## *- Socially Responsible Business Models*

- ◆ Technological advances - change the world
- ◆ Yet, socioeconomic, cultural & natural forces impose limits on business practices
- ◆ Companies - innovate new solutions & values - socially responsible - most likely to succeed
- ◆ Strikes a resonant chord in Asia - consistent with Confucian values



## Marketing **INSIGHT** Confucius & Marketing in East Asia

- ◆ 2 Confucian values: *li* & *ren* - cornerstones of East Asian social structure
- ◆ *Li* - appropriate behavior for every social situation
- ◆ *Ren* - positive efforts for good of others - human relations
- ◆ Solidarity of family - social system of community
- ◆ Japanese - Confucian tradition - loyalty & filial piety to commerce
- ◆ Loyalty among Chinese - channel advantage for local companies in regional markets



## One negative facet

- ◆ Product management in Asia - adversely affected - lack of respect for intellectual property rights (IPR)
- ◆ IPR not under Confucian custom & tradition
- ◆ IPR piracy - local authorities 'look the other way'
  
- ◆ Doubts over role of Asian values - region's successes & failures
- ◆ Attachment to family - nepotism
- ◆ Importance of personal relationships - cronyism
- ◆ Respect for authority: rigidity, inability to innovate
- ◆ Education: rote learning, refusal to question authority

# Socially Responsible Marketing

## - *Cause-Related Marketing*

- ◆ Cause-related marketing: links firm's contributions to a cause to customers' engaging in revenue-producing transactions with firm

# Socially Responsible Marketing

## *- Cause-Related Marketing*

### CAUSE MARKETING BENEFITS & COSTS

#### Benefits:

- 1) Improve social welfare
- 2) Create differentiated brand positioning
- 3) Build strong consumer bonds
- 4) Enhance company's public image with government & other decision makers
- 5) Create reservoir of goodwill
- 6) Boost internal morale & galvanize employees
- 7) Drive sales



# Socially Responsible Marketing

## *- Cause-Related Marketing*

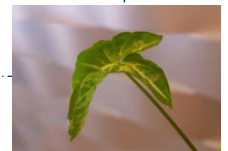
- ◆ By humanizing firm, consumers - unique bond with firm - transcends normal transactions
- ◆ How cause-related marketing builds brand equity with consumers?
  - 1) Build brand awareness
  - 2) Enhance brand image
  - 3) Establish brand credibility
  - 4) Evoke brand feelings
  - 5) Create sense of brand community
  - 6) Elicit brand engagement



# Socially Responsible Marketing

## - *Cause-Related Marketing*

- ◆ **Danger:** Cause-related marketing backfires if
- ◆ Link between product & cause is questioned &
- ◆ Firm seen as self-serving & exploitative



# Socially Responsible Marketing

## *- Cause-Related Marketing*

### CHOOSING A CAUSE

- ◆ Positive brand impact from cause-related marketing - lessened by sporadic involvement with numerous causes
- ◆ Focus on one/few causes - maximize impact
- ◆ But limit people who transfer positive feelings from cause to firm
- ◆ Popular causes - too many sponsors
- ◆ Opportunity in “orphan causes”
- ◆ Choose causes that fit corporate/brand image & matter to employees & shareholders



# Socially Responsible Marketing

## *- Cause-Related Marketing*

### **BRANDING** THE CAUSE MARKETING PROGRAM

**3** ways to brand cause marketing program:

- 1) Self-branded: Create own cause program
- 2) Co-branded: Link to existing cause program
- 3) Jointly-branded: Link to existing cause program - & brand it





How Cause Marketing should be practiced:

- 1) Define CSR for company
- 2) Build diverse team
- 3) Analyze current CSR activities & revamp
- 4) Forge & strengthen NGO relationships
- 5) Develop cause branding initiative
- 6) Walk your talk
- 7) Don't be silent
- 8) Beware

# Socially Responsible Marketing

## - *Social Marketing*

- ◆ **Social marketing:** done by nonprofit or government organization to further a cause
- ◆ A global phenomenon for many years
- ◆ Choosing right goal/objective is critical
- ◆ Employ different tactics to achieve goals



# Socially Responsible Marketing

## - Social Marketing

- ◆ Objectives - change cognitions, values, actions or behaviors. Examples:
  - 1) *Cognitive campaigns*
    - ◆ Explain nutritional value of different foods
  - 2) *Action campaigns*
    - ◆ Motivate women to take a pap test
  - 3) *Behavioral campaigns*
    - ◆ Demotivate cigarette smoking
  - 4) *Value campaigns*
    - ◆ Alter ideas about abortion



## Table 22.2 Social Marketing Planning Process

### **Where Are We?**

- Determine program focus.
- Identify campaign purpose.
- Conduct an analysis of Strengths, Weaknesses, Opportunities, and Threats (SWOT).
- Review past and similar efforts.

### **Where Do We Want To Go?**

- Select target audiences.
- Set objectives and goals.
- Analyze target audiences and the competition.

### **How Will We Get There?**

- Product: Design the market offering.
- Price: Manage costs of behavior change.
- Distribution: Make the product available.
- Communications: Create messages and choose media.

### **How Will We Stay on Course?**

- Develop a plan for evaluation and monitoring.
- Establish budgets and find funding sources.
- Complete an implementation plan.

# Socially Responsible Marketing

## - *Social Marketing*

- ◆ **Success factors in social marketing:**
  - 1) Study literature & previous campaigns
  - 2) Choose target markets - most ready
  - 3) Promote single, doable behavior
  - 4) Explain benefits in compelling terms
  - 5) Make it easy to adopt behavior
  - 6) Develop attention-grabbing messages & media
  - 7) Consider education-entertainment approach

# Socially Responsible Marketing

## - *Social Marketing*

- ◆ Given complexity & challenges - important to take long-run view
- ◆ Take time: phased programs or actions
- ◆ *E.g. To discourage smoking:*
  - *Cancer reports*
  - *Label cigarettes*
  - *Ban cigarette advertisement*
  - *Education on secondary smoke effects etc*

# Socially Responsible Marketing

## - *Social Marketing*

- ◆ Actual success evaluated based on program objectives. Criteria include:
  - 1) High incidence of adoption
  - 2) High speed of adoption
  - 3) High continuance of adoption
  - 4) Low cost per unit of adoption
  - 5) No major counterproductive consequences





# Marketing Implementation

- ◆ **Marketing implementation:** process that turns marketing plans into action assignments & ensures stated objectives accomplished
- ◆ Strategy addresses what & why
- ◆ Implementation addresses *who, where, when & how*
- ◆ Strategy & implementation **closely related**

## Table 22.3

### Characteristics of a Great Marketing Company

- The company selects target markets in which it enjoys superior advantages, and exits or avoids markets where it is intrinsically weak.
- Virtually all the company's employees and departments are customer- and market-minded.
- There is a good working relationship between marketing, R&D, and manufacturing.
- There is a good working relationship between marketing, sales, and customer service.
- The company has installed incentives designed to lead to the right behaviors.
- The company continuously builds and tracks customer satisfaction and loyalty.
- The company manages a value-delivery system in partnership with strong suppliers and distributors.
- The company is skilled in building its brand name(s) and image.
- The company is flexible in meeting customers' varying requirements.



# Marketing Implementation

**4 skills** to implement marketing programs:

- 1) Diagnostic skills
- 2) Identification of company level
- 3) Implementation skills
- 4) Evaluation skills



# Marketing Implementation

- ◆ Strive to make operations efficient & returns more measurable
- ◆ Marketing use unconnected technology tools such as email
- ◆ IT to better manage marketing resource
- ◆ *marketing resource management, enterprise marketing management & marketing automation systems*



# Marketing Implementation

- ◆ Software packages - customized - better manage marketing processes, assets & resources
- ◆ **Marketing resource management (MRM)**  
- set of Web-based applications that automate & integrate project, campaign, budget, asset, brand, customer-relationship & knowledge management



# Marketing Implementation

- ◆ Software - Web-hosted, available to users with passwords
- ◆ *Desktop marketing* - marketers can find information & decision structures on their computers
- ◆ **MRM software** - marketers - improve spending & investment decisions, bring new products to market more quickly & reduce decision time & costs

# Evaluation & Control



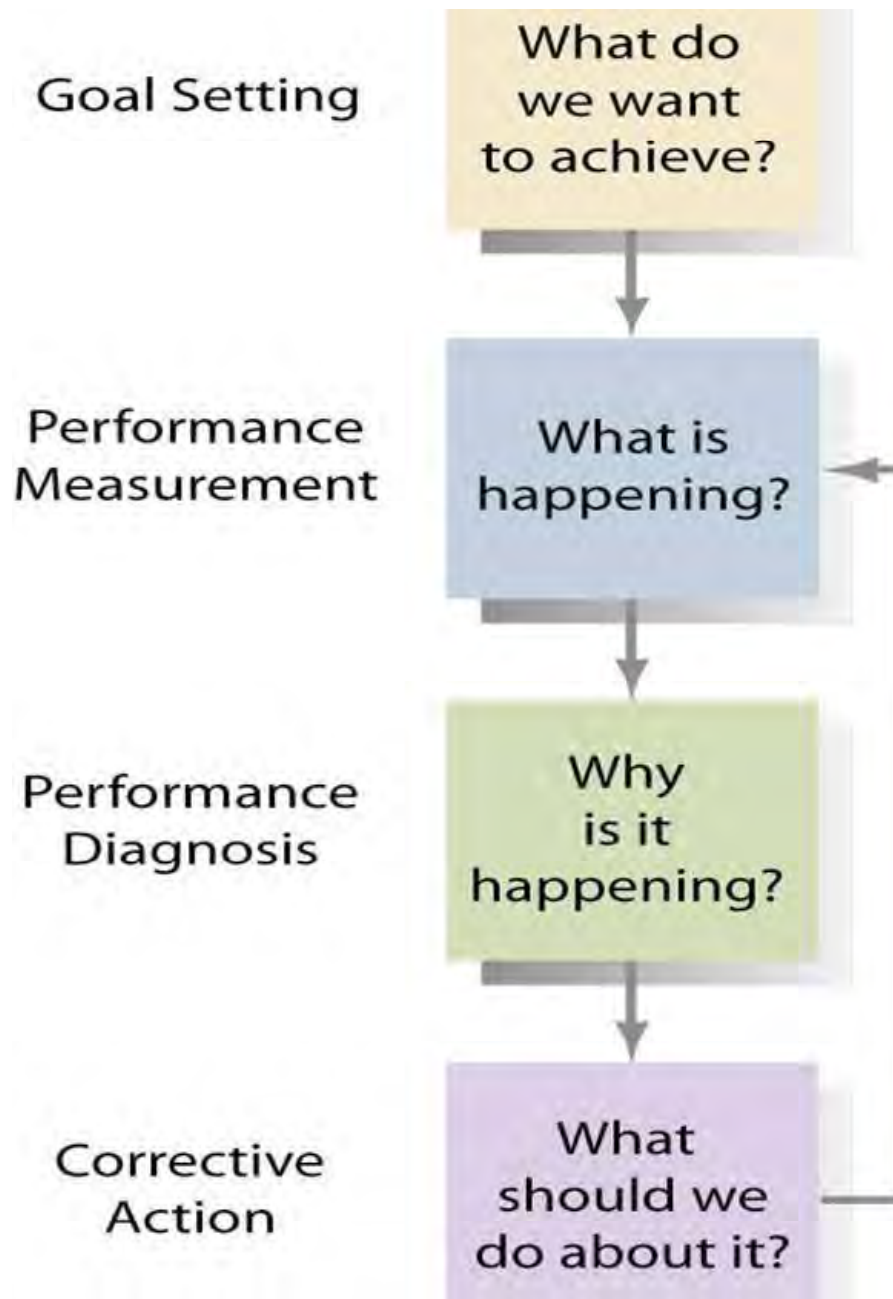
- ◆ Many firms - inadequate control procedures
- ◆ **Annual-plan control**: ensure sales, profits & other goals established in annual plan are achieved
- ◆ Heart of annual-plan control - **management by objectives**
- ◆ Model applies to all levels of organization
- ◆ Top management
  - sets annual sales & profit goals - become goals for lower management levels
  - Each period, reviews & interprets the results

## Table 22.4 Types of Marketing Control

Type of Control	Prime Responsibility	Purpose of Control	Approaches
I. Annual-plan control	Top management Middle management	To examine whether the planned results are being achieved	<ul style="list-style-type: none"> <li>• Sales analysis</li> <li>• Market share analysis</li> <li>• Sales-to-expense ratios</li> <li>• Financial analysis</li> <li>• Market-based scorecard analysis</li> </ul>
II. Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: <ul style="list-style-type: none"> <li>• product</li> <li>• territory</li> <li>• customer</li> <li>• segment</li> <li>• trade channel</li> <li>• order size</li> </ul>
III. Efficiency control	Line and staff management Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: <ul style="list-style-type: none"> <li>• sales force</li> <li>• advertising</li> <li>• sales promotion</li> <li>• distribution</li> </ul>
IV. Strategic control	Top management Marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products, and channels	<ul style="list-style-type: none"> <li>• Marketing-effectiveness rating instrument</li> <li>• Marketing audit</li> <li>• Marketing excellence review</li> <li>• Company ethical and social responsibility review</li> </ul>



**Figure 22.5**  
**The**  
**Control Process**



## Table 22.5 Marketing Metrics

### Sales Metrics

- Sales growth
- Market share
- Sales from new products

### Customer Readiness to Buy Metrics

- Awareness
- Preference
- Purchase intention
- Trial rate
- Repurchase rate

### Customer Metrics

- Customer complaints
- Customer satisfaction
- Number of promoters to detractors
- Customer acquisition costs
- New-customer gains
- Customer losses
- Customer churn
- Retention rate
- Customer lifetime value
- Customer equity
- Customer profitability
- Return on customer

### Distribution Metrics

- Number of outlets
- Share in shops handling
- Weighted distribution
- Distribution gains
- Average stocks volume (value)
- Stocks cover in days
- Out of stock frequency
- Share of shelf
- Average sales per point of sale

### Communication Metrics

- Spontaneous (unaided) brand awareness
- Top of mind brand awareness
- Prompted (aided) brand awareness
- Spontaneous (unaided) advertising awareness
- Prompted (aided) advertising awareness
- Effective reach
- Effective frequency
- Gross rating points (GRP)
- Response rate

# Sales Analysis

- ◆ Sales analysis measures and evaluates actual sales in relationship to goals. Two specific tools make it work:
- ◆ Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance.
- ◆ Microsales analysis looks at specific products, territories, etc. that failed to produce expected sales.

# Market Share Analysis

- ◆ Company sales don't always reveal how well the company is performing relative to competitors. Management tracks its market share in three ways:
  - Overall market share
  - Served market share
  - Relative market share

# Cautionary points about market share analysis

- ◆ Outside forces affect all companies in the same way
- ◆ A company's performance should be judged against the average performance of all companies
- ◆ New firms entering the industry will cause all existing firms market shares to fall
- ◆ A market share decline is sometimes deliberately engineered to improve profits
- ◆ Market share can fluctuate for many minor reasons

## Analyze market share movements is in terms of four components:

$$\text{Overall market share} = \text{Customer penetration} \times \text{Customer loyalty} \times \text{Customer selectivity} \times \text{Price selectivity}$$

where:

*Customer penetration*      Percentage of all customers who buy from the company.

*Customer loyalty*          Purchases from the company by its customers as a percentage of their total purchases from all suppliers of the same products.

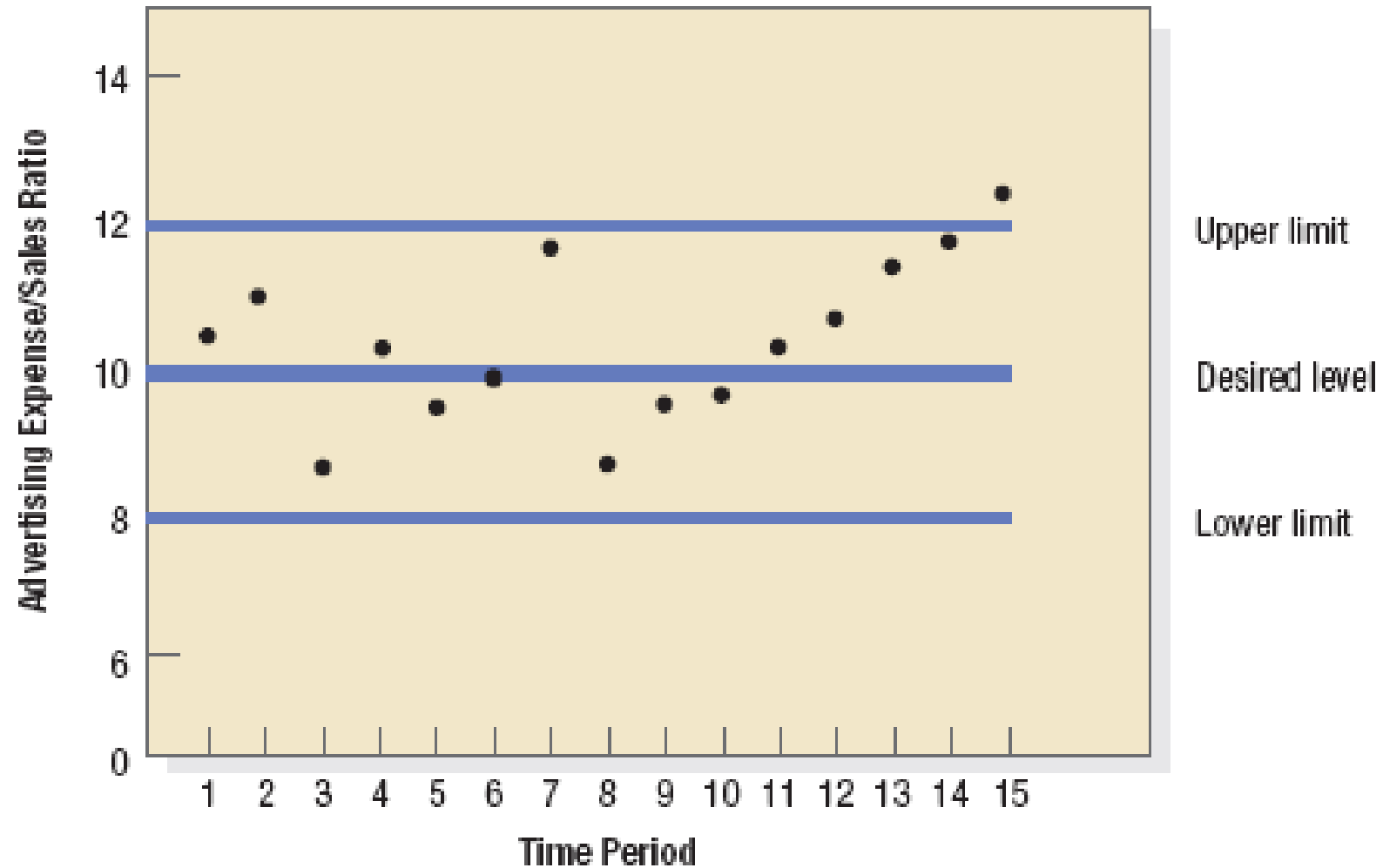
*Customer selectivity*      Size of the average customer purchase from the company as a percentage of the size of the average customer purchase from an average company.

*Price selectivity*          Average price charged by the company as a percentage of the average price charged by all companies.

# Marketing Expense-to-Sales Analysis

- ◆ Annual-plan control requires making sure the company is not overspending to achieve sales goals
- ◆ **Key ratio:** Marketing expense-to-sales
- ◆ Monitor period-to-period **fluctuations**

## Figure 22.6 The Control-Chart Model

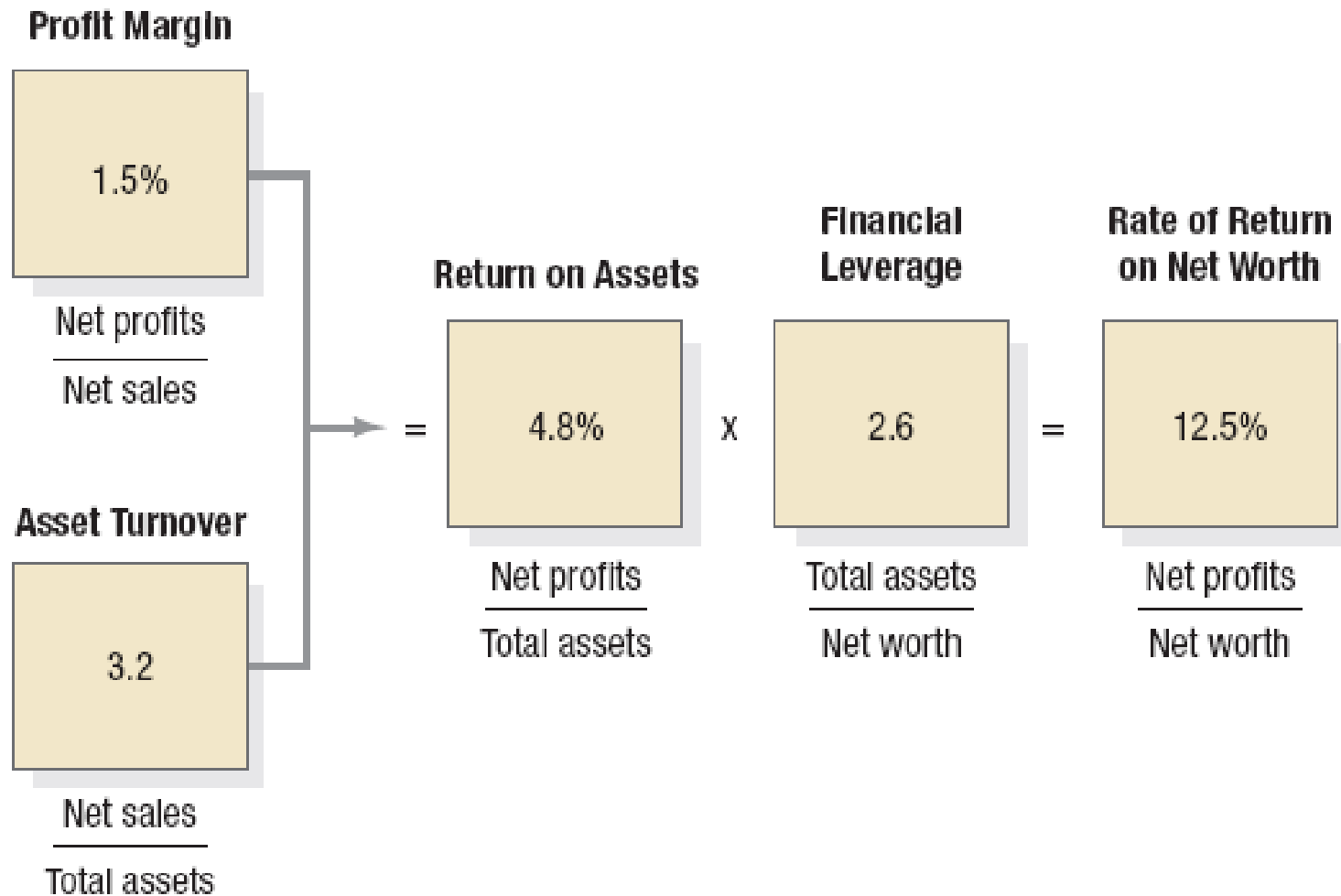




# Financial Analysis

- ◆ Marketers should analyze the expense-to-sales ratios and use financial analysis to find profitable strategies beyond sales building
  - A. Rate of Return on Net Worth
  - B. Return on Assets and its financial leverage
  - C. Profit margin
  - D. Asset turnover

## Figure 22.7 Financial Model of Return on Net Worth

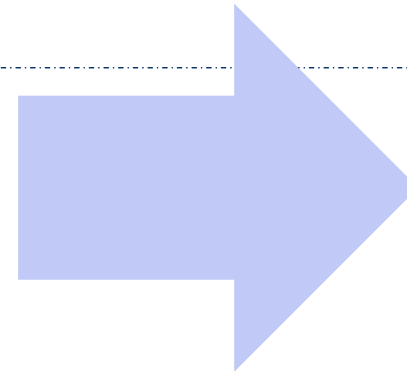


# Profitability Control

- ◆ Companies should measure the profitability of their:
- ◆ products
- ◆ territories
- ◆ customer groups
- ◆ segments
- ◆ trade channels and
- ◆ order sizes

# Marketing-Profitability Analysis

- ◆ This example uses a **lawnmower company** to illustrate the steps in the marketing-profitability analysis.



# Marketing-Profitability Analysis

## Step 1: Identify Functional Expenses

**Table 22.6** A Simplified Profit-and-loss Statement

Sales		\$60,000
Cost of goods sold		39,000
Gross margin		21,000
Expenses		
Salaries	\$9,300	
Rent	3,000	
Supplies	3,500	
		15,800
Net profit		\$5,200

**Table 22.7** Mapping Natural Expenses into Functional Expenses

Natural Accounts	Total	Selling	Advertising	Packing and Delivery	Billing and Collecting
Salaries	\$9,300	\$5,100	\$1,200	\$1,400	\$1,600
Rent	3,000	—	400	2,000	600
Supplies	3,500	400	1,500	1,400	200
	\$15,800	\$5,500	\$3,100	\$4,800	\$2,400

# Marketing-Profitability Analysis

## Step 2: Assigning Functional Expenses to Marketing Entities

**Table 22.8** Bases for Allocating Functional Expenses to Channels

Channel Type	Selling	Advertising	Packing and Delivery	Billing and Collecting
Hardware	200	50	50	50
Garden supply	65	20	21	21
Department stores	10	30	9	9
	<b>275</b>	<b>100</b>	<b>80</b>	<b>80</b>
Functional expense	\$5,500	\$3,100	\$4,800	\$2,400
÷ No. of Units	275	100	80	80
Equals	<b>\$ 20</b>	<b>\$ 31</b>	<b>\$ 60</b>	<b>\$ 30</b>

# Marketing-Profitability Analysis

## Step 3: Preparing a Profit-and-Loss Statement for Each Marketing Entity

**Table 22.9** Profit-and-Loss Statements for Channels

	Hardware	Garden Supply	Dept. Stores	Whole Company
Sales	\$30,000	\$10,000	\$20,000	\$60,000
Cost of goods sold	19,500	6,500	13,000	39,000
Gross margin	\$10,500	\$ 3,500	\$ 7,000	\$21,000
Expenses				
Selling (\$20 per call)	\$ 4,000	\$ 1,300	\$ 200	\$ 5,500
Advertising (\$31 per advertisement)	1,550	620	930	3,100
Packing and delivery (\$60 per order)	3,000	1,260	540	4,800
Billing (\$30 per order)	1,500	630	270	2,400
Total expenses	\$10,050	\$ 3,810	\$ 1,940	\$ 15,800
Net profit or loss	\$ 450	\$ (310)	\$ 5,060	\$ 5,200

## Marketing-Profitability Analysis

### DETERMINING CORRECTIVE ACTION

It would be naive to conclude the company should drop garden supply shops and possibly hardware stores so that it can concentrate on department stores. We need to answer the following questions first:

- To what extent do buyers buy on the basis of type of retail outlet versus brand?
- What are the trends with respect to the importance of these three channels?
- How good are the company marketing strategies directed at the three channels?

On the basis of the answers, marketing management can evaluate five alternatives:

1. Establish a special charge for handling smaller orders.
2. Give more promotional aid to garden supply shops and hardware stores.
3. Reduce the number of sales calls and the amount of advertising going to garden supply shops and hardware stores.
4. Do not abandon any channel entirely, but only the weakest retail units in each channel.
5. Do nothing.



# Marketing-Profitability Analysis

- ◆ In general, marketing-profitability analysis indicates the relative profitability of different products, channels, territories, and other marketing entities.
- ◆ It does not prove that the best course of action is to drop unprofitable ones.

# Direct Versus Full Costing

- ◆ Another judgmental element affecting profitability analysis is whether or not to allocate full costs or only direct and traceable costs in evaluating a marketing entity's performance.
  - A. Direct costs
  - B. Traceable common costs
  - C. Non-traceable common costs

# Evaluation & Control

## - *Efficiency & Control*



- ◆ Some companies established *marketing controller* position to improve marketing efficiency
- ◆ Some companies become more efficient by outsourcing several activities

# Evaluation & Control

## - *Efficiency & Control*



### SALES-FORCE EFFICIENCY

◆ Key indicators of efficiency in territories:

- 1) Average calls per person per day
- 2) Average call time per contact
- 3) Average revenue per call
- 4) Average cost per call
- 5) Entertainment cost per call
- 6) % of orders per 100 calls
- 7) Number of new customers per period
- 8) Number of lost customers per period
- 9) Sales-force cost as % of total sales

# Evaluation & Control

## *- Efficiency & Control*



### ADVERTISING EFFICIENCY

Keep track of these:

- ◆ Advertising cost reached by media vehicle
- ◆ % of audience who noted, saw & read each ad
- ◆ Consumer opinion: ad's content & effectiveness
- ◆ Before & after attitude - towards product
- ◆ Inquiries stimulated by ad
- ◆ Cost per inquiry

# Evaluation & Control

## *- Efficiency & Control*



### Steps to improve advertising efficiency:

- 1) Better product positioning
- 2) Define objectives
- 3) Pretest messages
- 4) Use computer technology to guide media selection
- 5) Look for better media buys
- 6) Do post-testing

# Evaluation & Control

## *- Efficiency & Control*



### **SALES-PROMOTION EFFICIENCY**

- ◆ Sales promotion: stimulate interest & trial
- ◆ To improve efficiency, take note:
  - 1) % of sales sold on deal
  - 2) Display costs per sales dollar
  - 3) % of coupons redeemed
  - 4) Inquiries after demonstration
- ◆ Analyze results & advise product managers on most cost-effective promotions to use

# Evaluation & Control

## *- Efficiency & Control*



### DISTRIBUTION EFFICIENCY

- ◆ Distribution economies - inventory control, warehouse locations & transport modes
- ◆ Track such measures as:
  - 1) Logistics costs as % of sales
  - 2) % of orders filled correctly
  - 3) % of on-time deliveries
  - 4) Number of billing errors
- ◆ Management to reduce inventory & speed up order-to-delivery cycle



# Evaluation & Control

## - *Efficiency & Control*



- ◆ Distribution efficiency drops - strong sales increases
- ◆ fall behind in meeting delivery dates
- ◆ customers bad-mouth company - sales fall
- ◆ Management- increase incentive- more orders
- ◆ Sales success but slips in meeting delivery
- ◆ Need to identify real bottleneck & invest in more production & distribution capacity

# Evaluation & Control

## - *Strategic Control*



- ◆ Critical review - marketing goals & effectiveness
- ◆ Periodically reassess strategic approach
- ◆ Can also perform marketing excellence reviews & ethical/social responsibility reviews

# Evaluation & Control

## - *Strategic Control*



### THE MARKETING AUDIT

A comprehensive, systematic, independent  
& periodic examination of

a company's/business unit's  
marketing environment, objectives,  
strategies & activities

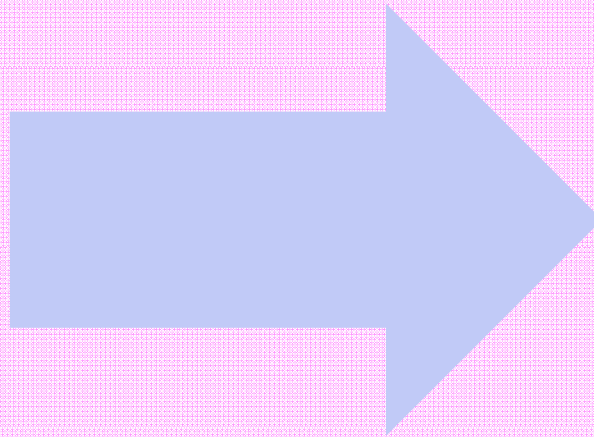
to determine problems & opportunities &  
recommend plan of action to improve  
marketing performance

# Evaluation & Control

## - *Strategic Control*



4 characteristics of marketing audit:



1) *Comprehensive*

2) *Systematic*

3) *Independent*

4) *Periodic*

# Evaluation & Control

## - *Strategic Control*



- ◆ Audit start: officer meets auditor- agree on objectives, cover, data sources format & time
- ◆ Plan: who to interview, questions, time, place
- ◆ Cardinal rule: Not just firm managers - include customers, dealers etc
- ◆ Firms do not fully understand how customers see them & what they need
- ◆ Marketing audit - 6 components of firm's marketing situation - Table 22.10



# Table 22.10: Components of a Marketing Audit

Part I. Marketing Environment Audit	
Macroenvironment	
A. Demographic	What major demographic developments and trends pose opportunities or threats to this company? What actions has the company taken in response to these developments and trends?
B. Economic	What major developments in income, prices, savings, and credit will affect the company? What actions has the company been taking in response to these developments and trends?
C. Environmental	What is the outlook for the cost and availability of natural resources and energy needed by the company? What concerns have been expressed about the company's role in pollution and conservation, and what steps has the company taken?
D. Technological	What major changes are occurring in product and process technology? What is the company's position in these technologies? What major generic substitutes might replace this product?
E. Political	What changes in laws and regulations might affect marketing strategy and tactics? What is happening in the areas of pollution control, equal employment opportunity, product safety, advertising, price control, and so forth, that affects marketing strategy?
F. Cultural	What is the public's attitude toward business and toward the company's products? What changes in customer lifestyles and values might affect the company?

## Table 22.10: Components of a Marketing Audit

Task Environment	
A. Markets	What is happening to market size, growth, geographical distribution, and profits? What are the major market segments?
B. Customers	What are the customers' needs and buying processes? How do customers and prospects rate the company and its competitors on reputation, product quality, service, sales force, and price? How do different customer segments make their buying decisions?
C. Competitors	Who are the major competitors? What are their objectives, strategies, strengths, weaknesses, sizes, and market shares? What trends will affect future competition and substitutes for the company's products?
D. Distribution and Dealers	What are the main trade channels for bringing products to customers? What are the efficiency levels and growth potentials of the different trade channels?
E. Suppliers	What is the outlook for the availability of key resources used in production? What trends are occurring among suppliers?
F. Facilitators and Marketing Firms	What is the cost and availability outlook for transportation services, warehousing facilities, and financial resources? How effective are the company's advertising agencies and marketing research firms?
G. Publics	Which publics represent particular opportunities or problems for the company? What steps has the company taken to deal effectively with each public?

## Table 22.10: Components of a Marketing Audit

Part II. Marketing Strategy Audit	
A. Business Mission	Is the business mission clearly stated in market-oriented terms? Is it feasible?
B. Marketing Objectives and Goals	Are the company and marketing objectives and goals stated clearly enough to guide marketing planning and performance measurement? Are the marketing objectives appropriate, given the company's competitive position, resources, and opportunities?
C. Strategy	Has the management articulated a clear marketing strategy for achieving its marketing objectives? Is the strategy convincing? Is the strategy appropriate to the stage of the product life cycle, competitors' strategies, and the state of the economy? Is the company using the best basis for market segmentation? Does it have clear criteria for rating the segments and choosing the best ones? Has it developed accurate profiles of each target segment? Has the company developed an effective positioning and marketing mix for each target segment? Are marketing resources allocated optimally to the major elements of the marketing mix? Are enough resources or too many resources budgeted to accomplish the marketing objectives?



## Table 22.10: Components of a Marketing Audit

Part III. Marketing Organization Audit	
A. Formal Structure	Does the marketing vice president have adequate authority and responsibility for company activities that affect customers' satisfaction? Are the marketing activities optimally structured along functional, product, segment, end-user, and geographical lines?
B. Functional Efficiency	Are there good communication and working relations between marketing and sales? Is the product-management system working effectively? Are product managers able to plan profits or only sales volume? Are there any groups in marketing that need more training, motivation, supervision, or evaluation?
C. Interface Efficiency	Are there any problems between marketing and manufacturing, R&D, purchasing, finance, accounting, and/or legal that need attention?

# Table 22.10: Components of a Marketing Audit

Part IV. Marketing Systems Audit	
A. Marketing Information System	Is the marketing intelligence system producing accurate, sufficient, and timely information about marketplace developments with respect to customers, prospects, distributors and dealers, competitors, suppliers, and various publics? Are company decision makers asking for enough marketing research, and are they using the results? Is the company employing the best methods for market measurement and sales forecasting?
B. Marketing Planning System	Is the marketing planning system well-conceived and effectively used? Do marketers have decision support systems available? Does the planning system result in acceptable sales targets and quotas?
C. Marketing Control System	Are the control procedures adequate to ensure that the annual-plan objectives are being achieved? Does management periodically analyze the profitability of products, markets, territories, and channels of distribution? Are marketing costs and productivity periodically examined?
D. New-Product Development System	Is the company well-organized to gather, generate, and screen new-product ideas? Does the company do adequate concept research and business analysis before investing in new ideas? Does the company carry out adequate product and market testing before launching new products?

## Table 22.10: Components of a Marketing Audit

Part V. Marketing Productivity Audit	
A. Profitability Analysis	What is the profitability of the company's different products, markets, territories, and channels of distribution? Should the company enter, expand, contract, or withdraw from any business segments?
B. Cost-Effectiveness Analysis	Do any marketing activities seem to have excessive costs? Can cost-reducing steps be taken?

## Table 22.10: Components of a Marketing Audit

Part VI. Marketing Function Audits	
A. Products	What are the company's product-line objectives? Are they sound? Is the current product line meeting the objectives? Should the product line be stretched or contracted upward, downward, or both ways? Which products should be phased out? Which products should be added? What are the buyers' knowledge and attitudes toward the company's and competitors' product quality, features, styling, brand names, and so on? What areas of product and brand strategy need improvement?
B. Price	What are the company's pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria? Do the customers see the company's prices as being in line with the value of its offer? What does management know about the price elasticity of demand, experience-curve effects, and competitors' prices and pricing policies? To what extent are price policies compatible with the needs of distributors and dealers, suppliers, and government regulation?

## Table 22.10: Components of a Marketing Audit

C. Distribution	What are the company's distribution objectives and strategies? Is there adequate market coverage and service? How effective are distributors, dealers, manufacturers' representatives, brokers, agents, and others? Should the company consider changing its distribution channels?
D. Marketing Communications	What are the organization's advertising objectives? Are they sound? Is the right amount being spent on advertising? Are the ad themes and copy effective? What do customers and the public think about the advertising? Are the advertising media well chosen? Is the internal advertising staff adequate? Is the sales promotion budget adequate? Is there effective and sufficient use of sales promotion tools such as samples, coupons, displays, and sales contests? Is the public relations staff competent and creative? Is the company making enough use of direct, online, and database marketing?
E. Sales Force	What are the sales force's objectives? Is the sales force large enough to accomplish the company's objectives? Is the sales force organized along the proper principles of specialization (territory, market, product)? Are there enough (or too many) sales managers to guide the field sales representatives? Do the sales compensation level and structure provide adequate incentive and reward? Does the sales force show high morale, ability, and effort? Are the procedures adequate for setting quotas and evaluating performance? How does the company's sales force compare to competitors' sales forces?

# Evaluation & Control

## - *Strategic Control*



### THE MARKETING EXCELLENCE REVIEW

- ◆ Management can place a checkmark to indicate its perception of where its business stands.
- ◆ The profile that results can expose weaknesses and strengths, and highlight where the company might become an outstanding player in the marketplace.

# The Future of Marketing

Top management has recognized that past marketing has been highly wasteful and is demanding *more accountability from marketing*

# The Future of Marketing- Key Imperatives

1. Marketing must be “holistic” and less departmental.
2. Marketers must achieve larger influence in the company if they are to be the main architect of business strategy.
3. Marketers must continuously create new ideas if the company is to prosper in a hyper-competitive economy.



# The Future of Marketing- Key Imperatives

4. Marketers must strive for customer insight and treat customers differently but appropriately.
5. Marketers must build their brands through performance, more than through promotion.
6. Marketers must go electronic and win through building superior information and communication system.

## Likely outcomes in the future...

1. The demise of the marketing department and the rise of holistic marketing
2. The demise of free-spending marketing and the rise of ROI marketing
3. The demise of marketing intuition and the rise of marketing science
4. The demise of manual marketing and the rise of automated marketing
5. The demise of mass marketing and the rise of precision marketing

## New skills and competencies needed; proficiency needed in:

1. Customer relationship management (CRM)
2. Partner relationship management (PRM)
3. Database marketing and data mining
4. Contact center management and telemarketing.

## New skills and competencies needed; proficiency needed in:

5. Public relations marketing (including event and sponsorship marketing)
6. Brand building and brand asset management.
7. Experiential marketing
8. Integrated marketing communications
9. Profitability analysis by segment, customer, and channel

## DEADLY SIN: Insufficient market-focus & customer drive

*Signs:* Segments poorly identified

*Solutions:* Advanced segmentation techniques

## DEADLY SIN: Does not fully understand target

*Signs:* Customers buy less product; High returns, complaints

*Solutions:* Analytical techniques; Data mining

## DEADLY SIN: To better define & monitor competitors

*Signs:* No system for competitive intelligence

*Solutions:* Establish office for competitive intelligence

## DEADLY SIN: Relations with stakeholders not managed well

*Signs:* Stakeholders unhappy

*Solutions:* Manage relations better

## DEADLY SIN: Not good at finding new opportunities

*Signs:* No exciting new opportunities for years

*Solutions:* Set up system - stimulate flow of new ideas



## **DEADLY SIN: Marketing planning process is deficient**

*Signs:* Plan lack right components; no contingencies

*Solutions:* SWOT, strategy, budgets & controls

## **DEADLY SIN: Product & service policies need tightening**

*Signs:* Many products lose money, poor cross-selling

*Solutions:* System - track weak products, improve upselling

## **DEADLY SIN: Brand-building & communication skills are weak**

*Signs:* Target knows little about company, brand not distinctive

*Solutions:* Improve brand-building strategies

## **DEADLY SIN: Not organized for effective & efficient marketing**

*Signs:* Lacks 21st century marketing skills, bad internal vibes

*Solutions:* Appoint strong leader; improve internal relations

## **DEADLY SIN: Not made maximum use of technology**

*Signs:* Little use of Internet, outdated sales system

*Solutions:* Use more Internet, improve sales automation system



# The Future of Marketing

- ◆ The words of *Ralph Waldo Emerson* may never have been more true:

*“This time like all times  
is a good one, if we but know  
what to do with it”*

### Marketing Debate -

#### Is Marketing Management an Art or a Science?

Some marketing observers maintain that good marketing is something that is more an art & does not lend itself to rigorous analysis & deliberation. Others strongly disagree & contend that marketing management is a highly disciplined enterprise that shares much in common with other business disciplines.

**Take a position:** Marketing management is largely an artistic exercise & therefore highly subjective versus Marketing management is largely a scientific exercise with well-established guidelines & criteria.

### Marketing Discussion

How does cause or corporate societal marketing affect your personal consumption behavior? Do you ever buy or not buy any products or services from a company because of its environmental policies or programs? Why or why not?