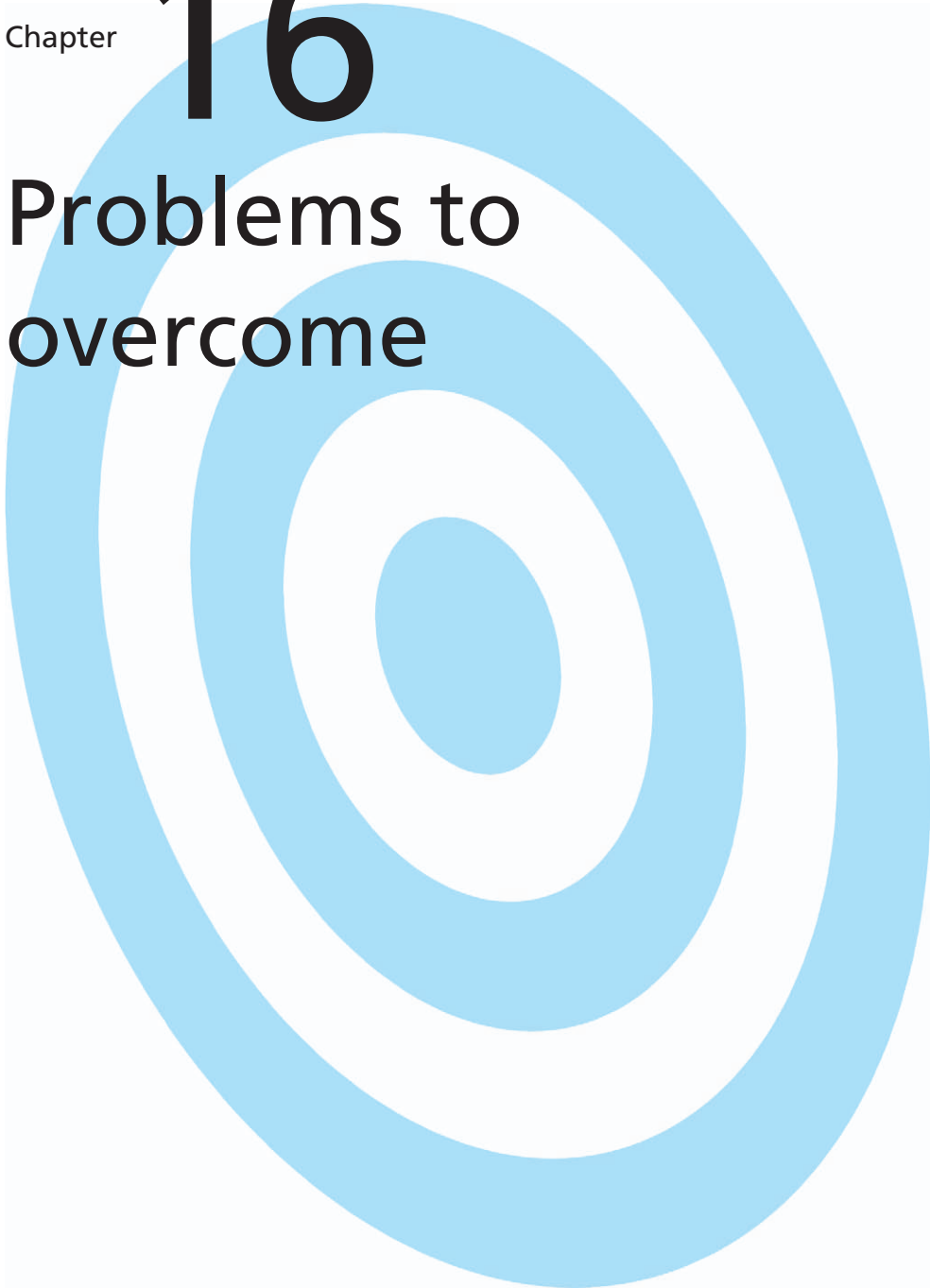


Chapter

16

Problems to overcome



16.1 Learning objectives

When you have read this chapter you should be able to:

- (a) understand the importance of implementation as part of the overall process of marketing planning and control;
- (b) recognize the problems that need to be addressed in implementing marketing plans and controlling marketing activities;
- (c) appreciate the need for marketing orientation and a positive approach to planning if marketing objectives are to be achieved;
- (d) identify the organizational design issues that are relevant to marketing planning, implementation and control.

16.2 Introduction

Of the two major operating functions, production and marketing, the former has lent itself to rigorous analysis over many years, with the result that it has been studied in great detail. Marketing, however, has not lent itself so much to critical examination until relatively recently, and for this reason it has received an unjustifiably low proportion of analytical attention. The marketing function is the most difficult area to plan and control, since it is the source of sales forecasts and revenue estimates that can rarely be predicted accurately, and there is the further need to plan and control expenditure in addition to dealing with the human dimensions.

The scale of operations is determined by the sales forecast, but it may be found that the level of projected sales exceeds the short-term productive capacity of the enterprise. In such an event it may be necessary to:

- 1 Expand the productive facilities
- 2 Raise prices in an attempt to ration the available output
- 3 Subcontract production to outside suppliers
- 4 Rely on inventories.

On the other hand, it may be that the projected level of sales is insufficient to produce the desired return on investment (i.e. profitability objective). Apart from increasing the overall level of sales activity, it may be appropriate to reconsider the means of distribution to ensure that it is the most cost-effective, or the existing sales effort may not be properly allocated (e.g. consider exporting – see Pilcher, 1989) or individual product profit margins may be subject to adjustment by product modifications, or an analysis of credit losses may cause credit extension policies to be amended to improve profitability (see, for example, Bass, 1991).

The study, and to a lesser extent the practice, of financial management has been reduced almost to a science in parallel with the study of production. The importance of human rather than technical factors in the marketing subsystem, coupled with the complexity of the marketing interfaces with internal and external subsystems, have been the causes of the delays in rigorous marketing analysis (see Wilson, 1994). This chapter considers some of the problems that must be overcome in controlling marketing activities along the lines suggested in Chapters 17 and 18. Problem areas that are discussed include business pressures, problems in the marketing subsystem, problems of marketing feedback and information adequacy, cost problems, problems relating to marketing orientation, and problems relating to planning. Consideration is also given to the organizational problems associated with the implementation and control of marketing plans.

16.3 Pressures

King (1991, p. 3) has pointed out that the pressures on marketing organizations during the 1980s were formidable and it is likely that these pressures will intensify. Similar views are offered by Hussey (1989) and Buckley (1991) – see also Brown (1995).

The range of external factors impacting on organizations is shown in Figure 16.1, although this is not intended to be an exhaustive portrayal. Many of these factors were discussed in Chapter 7. Pressures that are expected to have an increasing significance include:

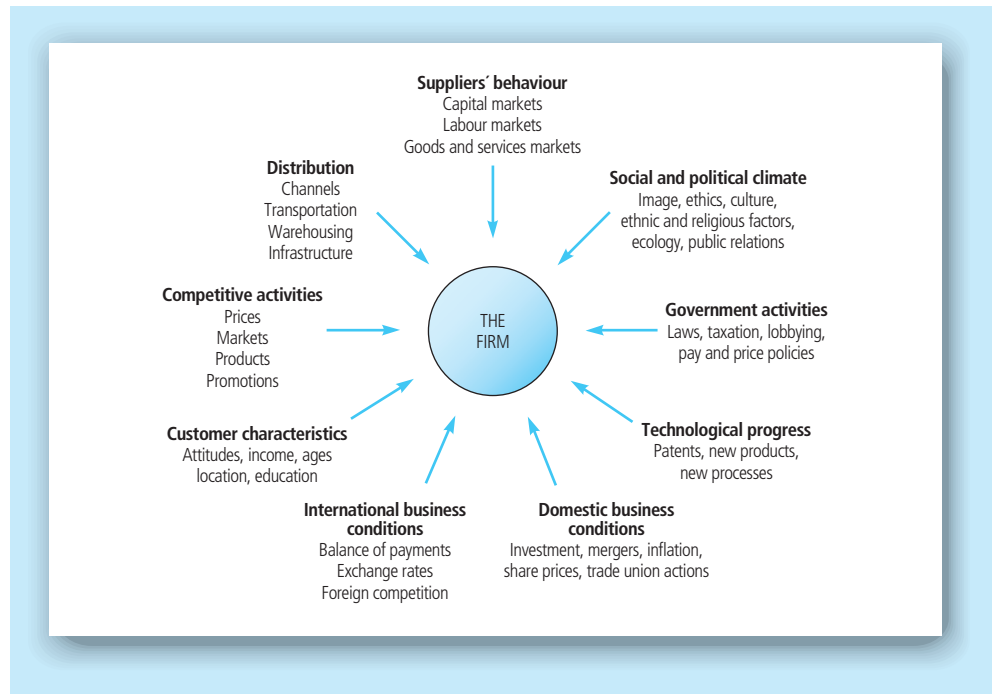


Figure 16.1 The influence of external factors (source: Wilson, 1983, p. 209)

- 1 More confident customers due to increasing consumer awareness via consumerism, a greater willingness to experiment, more readiness to trust their own judgement, less tolerance of products that fail to contribute to their own values, higher levels of disposable income, and increased individualism.
- 2 New concepts of quality that reflect *real* values rather than superficial styling, plus personal added values and a requirement for increased customer care.
- 3 Changing demographic and social patterns, such as fewer school leavers and a higher proportion of retired people, a shortage of skills relative to point 2 above, demands for improved social conditions, and the continuing importance of 'green' issues.
- 4 An intensification of competition via increased global marketing, the fragmentation of markets, and the risk of excess capacity in many markets.
- 5 The formation of joint ventures and strategic alliances when outright acquisition is neither feasible nor desirable, or when organic expansion is not possible (see, for example, Clarke and Brennan, 1988; Devlin and Biggs, 1989) and the growing use of shared services.
- 6 Political changes, including deregulation, political, economic and financial integration, and change in trade policies (see, for example, Quelch et al., 1990; Lynch, 1992; Brown and McDonald, 1994; Bennett, 1995).
- 7 Technological imperatives in product and process innovations, the acceleration of technological change with an emphasis on new product development, hence shorter PLCs, and changes in the provision of service (e.g. via EFTS) – especially in retailing.
- 8 The harnessing of information technology in ways that build competitive advantage, which places a greater responsibility on managers both to understand the meaning of the results from the use of analytical techniques and to ensure that the quality of information in use is high.
- 9 Restructuring of the world economy and restructuring at a micro-economic level due to mergers, management buy-outs, leveraged buy-outs, building, unbundling, etc.
- 10 More market-focused organizations (i.e. increasing marketing orientation – see below), and an acceleration in the shift from a manufacturing to a service economy.
- 11 Short-termism. On the question of short-termism, Heller (1990) observed that it has been argued that the spectre of the City of London has cast a shadow over British managers that makes them so uneasy they tend to concentrate on short-term financial goals to the detriment of long-term results. However, the core of Heller's argument is that the short-term demons are, in fact, lurking within the managers themselves rather than within the City institutions (which are rarely inclined to act on a short-term basis). Managers who attach more importance to this year's results than to the organization's likely situation in the twenty-first century, or whose rewards are wholly related to current performance, are not acting in the best interests of the organization as a whole.

The CBI set up a task force to report on the phenomenon of short-termism: the resulting report (entitled *Investing for Britain's Future*) also showed short-termism to be a myth in so far as it is attributable to City institutions. To the extent that it does exist it is attributable to poor management on the one hand and to underlying economic and political factors (such as high interest rates) on the other. Ferguson (1989, p. 68) has observed that

share prices typically react well to announcements of strategic commitments but that 'British companies have a curious reticence about heralding their grand schemes'. The fact that there is good empirical support underlying the efficient markets hypothesis was pointed out in Chapter 13 (see also Puxty and Dodds, 1991, pp. 69–86).

If only a few of these pressures were to occur there would be significant implications for marketing planning and control. Since most (if not all) of them are already occurring it is evident that managers must develop understanding, commitment and skills to deal proactively with new situations.

Lewis (1989) has grouped the pressures for change into four main areas, as shown in Figure 16.2. The axes range from task-focused to people-focused pressures on the horizontal plane and from external to internal pressures on the vertical plane. Within the resulting cells we have:

- 1 Market pressures – with keywords being change, variety and complexity
- 2 External – people pressures involving increasing liaison with customers and developments such as the Green movement
- 3 Internal – task pressures for cost reduction and systems development as well as R&D activities
- 4 Internal – people pressures, including increased autonomy among employees and demands for more flexibility in the way in which staff are treated in the face of reduced job security.

There are no blanket formulae for structuring organizations or motivating staff in order to cope with the problems of constant change. It is evident, however, that not all managers or their subordinates are equally amenable to change. Figure 16.3 gives one approach to assessing resistance to change.

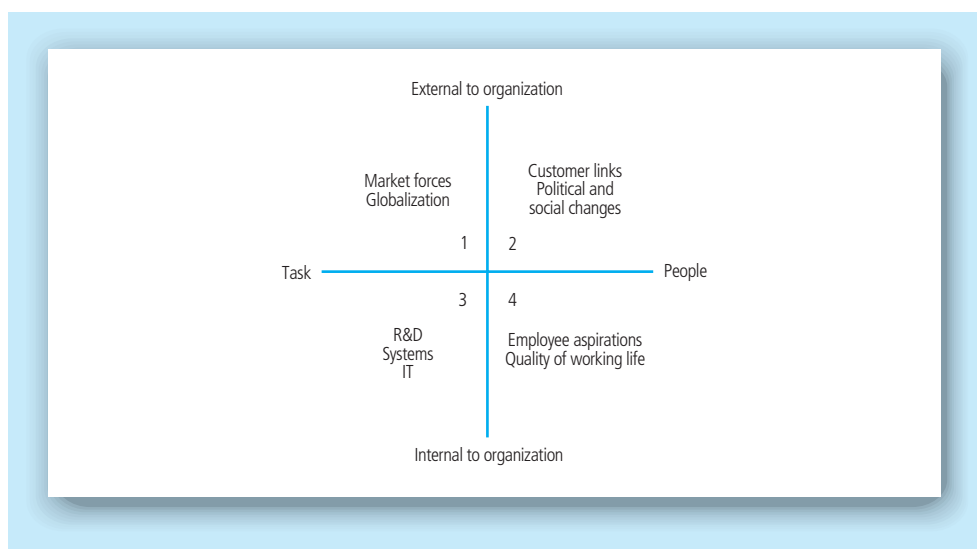


Figure 16.2 Pressures for change (source: Lewis, 1989)

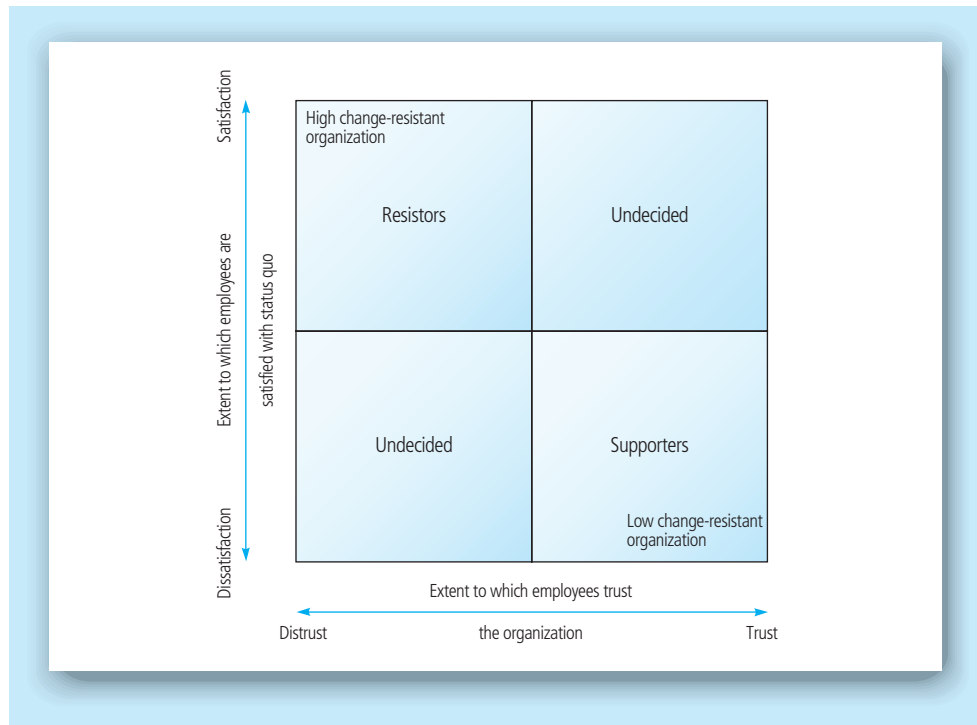


Figure 16.3 Change resistance grid (adapted from Witte, 1990, p. 30)

An organization that is highly resistant to change will exhibit characteristics such as the following:

- ➔ Large
- ➔ Established
- ➔ Centralized
- ➔ Hierarchic management structures
- ➔ Predictable tasks
- ➔ Manufacturing base
- ➔ Paternal orientation
- ➔ Vertical information systems
- ➔ Autocratic management style
- ➔ Unskilled workforce
- ➔ Non-professional
- ➔ Undifferentiated product lines
- ➔ Immobile workforce.

In contrast, an organization that has a low resistance to change will have characteristics as follows:

- ➔ Small
- ➔ New

- ➔ Decentralized
- ➔ Flat management structures
- ➔ Unpredictable tasks
- ➔ Service base
- ➔ Fraternal orientation
- ➔ Horizontal information systems
- ➔ Participative management style
- ➔ Skilled workforce
- ➔ Professional
- ➔ Differentiated product lines
- ➔ Mobile workforce.

The ideal environment in which to initiate change is one in which employees trust the organization but feel dissatisfied with the status quo. A classic example of this is to be found in the Virgin Group: it is a relatively young, decentralized, fast-growing service organization with diverse and innovative product lines. The workforce is skilled and mobile, the management structures are flat, and the management style is both participative and fraternal, with an ethos that is virtually synonymous with change.

Innovation is clearly more likely in low-resistance organizations provided that they do not attempt too much too quickly or fail to carry through the changes that are initiated.

It has been contended (see Ulrich and Lake, 1991) that the 'traditional' means of securing competitive advantage (i.e. via financial, strategic and technological capabilities) cover only part of what managers will need to do to build sustainable competitive advantage in the future. Existing capabilities must be supplemented by *organizational capability* – which can be defined as the enterprise's ability to manage people to gain competitive advantage by establishing internal structures and processes that influence its members to create organization-specific competences. This entails more than simply recruiting good people; it requires the deliberate development of competences by which employees will act to ensure the enterprise stays ahead of its competitors (see Hamel and Prahalad, 1994). Two outstanding examples of where this is being done are the Marriott Corporation (covering hotels and food), and Borg-Warner (which deals with chemicals, automotive components and financial services).

16.4 Problems in the marketing subsystem

Several facets of the marketing subsystem that give rise to problems of control have been highlighted by Kotler (1972). These include the following:

- ➔ The outputs of the marketing function have repercussions on the outputs of other corporate functions, such as credit collection having a significant bearing on the controller's cash flow situation

- ➔ These outputs of other functional subsystems in turn affect subsequent outputs of the marketing subsystem, so that a poor cash flow may lead to a need to cease extending credit and hence to a lower level of sales and profit
- ➔ The interface of the marketing subsystem with the subsystems formed by external agents is fraught with difficulty, since the marketing manager must attempt to exercise some degree of control over advertising agents, PR consultants, wholesalers and shipping companies
- ➔ The human factor that is at the heart of marketing creates problems of control because of the difficulties involved in coordinating the activities of salespeople, product managers, advertising agents and marketing researchers, all of whom are essentially creative and individualistic
- ➔ The usual problems associated with any corporate project, such as launching a new product, entering a new territory or executing a major promotional campaign are especially noticeable in marketing as a result of the human element and the external interfaces.

To these we can add the problem of assessing performance.

Defining marketing performance has proved to be a difficult task due to a number of problems, including (as suggested by Bonoma and Clarke, 1988):

- ➔ The nature of marketing as a complex discipline having many dimensions and interfaces (e.g. internally with functions such as production, and externally with intermediaries, agencies, etc.), each of which has an impact on performance
- ➔ The need for marketing to behave in an adaptive way in the light of environmental changes (such as competitive activities or shifts in the pattern of consumer demand), which renders performance benchmarks perishable
- ➔ The tendency to focus on inputs rather than outputs, with the presumption being that the desired outputs (such as increased market share) are 'obvious', thereby playing down the importance of both marketing performance and the implementation of marketing plans.

The marketing manager must find means of securing better coordination among the various functional subsystems that are not directly under his or her control, including production, purchasing and materials control. This may be achieved by improving communications and interorganizational understanding about what is in the interest of the enterprise as a whole.

In addition, the marketing manager must strive to influence external agents, as well as to motivate internal staff to carry out their respective duties in the enterprise's best interests. This requires both flexibility in terms of tactics and adequate feedback from operations.

A coordinated approach requires that marketing plans are developed alongside production plans, staffing plans, financial plans, and so forth. The need for this close coordination is due to elements of one plan being the starting point for others: thus, a

sales forecast (as an element of the marketing plan) is the cornerstone of the production plan – see Chapter 15 of Fisk (1967) and Chapter 9 of Schaffir and Trentin (1973).

Systems theory provides a conceptual framework within which management can effectively integrate the various activities of the organization, including the marketing function (see, for example, Churchman, 1968; Schoderbek et al., 1975; Emery, 1981). The major benefit of the systems approach lies in the facility it gives to management in recognizing the proper place and function of subsystems within the whole, thereby focusing attention on broader issues than those contained in a single department. With particular reference to marketing, the application of systems thinking (Lazer, 1962b; Wilson, 1970b) should result in at least three developments of significance to improved management:

- 1 A more concerted emphasis on marketing planning and control
- 2 Better systems of marketing intelligence to provide management with a clearer perspective for its marketing actions
- 3 Following on from both of the above items, a better understanding of marketing as an adjustment mechanism that is able to employ corporate resources to meet changing market conditions successfully.

With particular regard to functional coordination, the common flows through all departments are information, physical resources and funds, so one or more of these can be a vehicle for integration. Let us consider some examples.

Production – marketing interface

A failure to control this interface effectively can lead to such problems as the sales force promising early delivery to secure an order that then causes difficulties in both production programming and delivery scheduling. Such behaviour could easily jeopardize future orders. Plant capacity and flexibility, standardization, and quality requirements must all be taken into account by planners attempting to integrate production and marketing operations.

Purchasing – marketing interface

Effective cooperation here should prevent material shortages from appearing and should also help to avoid the holding of excessive raw material/component stocks due to marketing management's failing to inform the purchasing department of reduced requirements. Such failure causes funds to be tied up unnecessarily in an unprofitable use, which is very inefficient.

Personnel – marketing interface

Although selection procedures are imperfect, this in itself is an insufficient cause to ignore the methods that are available and to rely on wholly personal judgement. Those who are

to be responsible for recruiting, training and inducting marketing personnel must have a sound knowledge of the work done in, and skill requirements of, the marketing area.

Accounting – marketing interface

The question of coordination and communication between marketing and the financial control function is of fundamental importance (e.g. Wilson, 1970, 1975, 1981, 1998, 1999b, 2001; Ratnatunga, 1983, 1988; Ward, 1989; Shaw, 1998; Ambler, 2003). Our present interest is not with the keeping of books of accounts and the subsequent reporting to outside parties (e.g. via the statutory annual balance sheet and profit and loss account). This is but one decreasingly important function of the financial controller generally referred to as the *stewardship function*. (It is so called because the controller acts as the shareholders' steward in keeping records, paying bills, collecting debts and safeguarding the assets of the business.)

In contrast with stewardship is the controller's *service function*, through which he or she aims to develop information flows and reporting systems to facilitate improved planning, decision-making and control.

Marketing controllership is concerned with the controller's service to marketing management, and this will become increasingly important as the marketing concept is more widely adopted and as marketing becomes more dominant within the typical company.

To offer the best service to marketing involves the controller studying the company's marketing organization and its problems. One approach to this is shown in Figure 16.4.

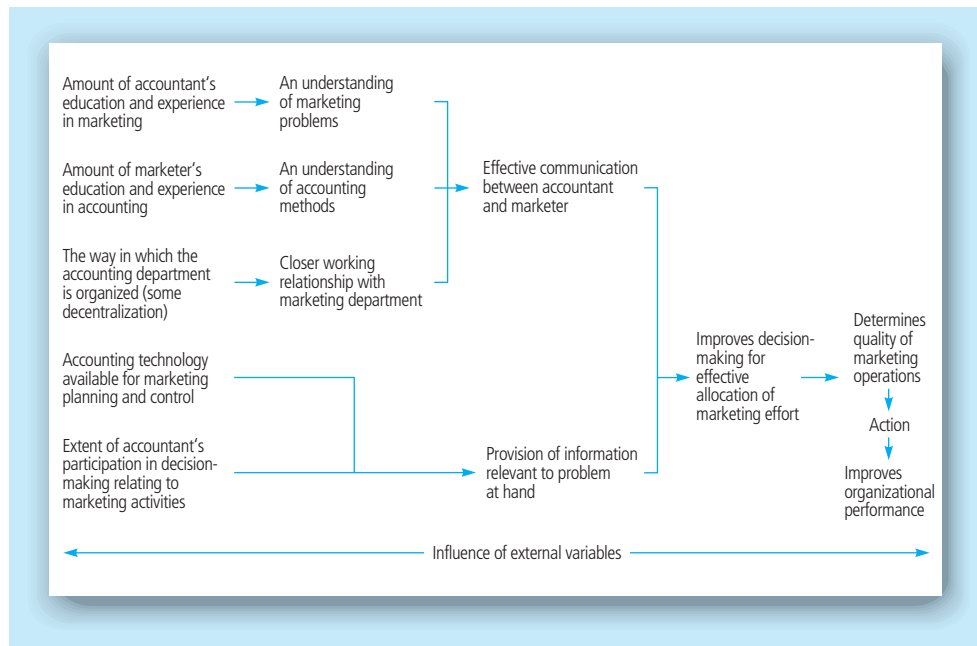


Figure 16.4 A framework for improved management accounting – marketing interaction (source: Bancroft and Wilson, 1979, p. 29)

A greater mutual understanding between marketing managers and management accountants, coupled with the greater involvement of members from both groups in the decision process, should lead to more effective outcomes. The most effective communication, and the best information flows, tend to occur where members of the controller's staff are located within the marketing function with line responsibility to the controller but with a close working relationship with the marketing staff. In their pioneering US study, Schiff and Mellman (1962) found this arrangement in very few companies, and in their UK study Wilson and Bancroft (1983) found a similar situation, but a deeper interest in analysing the costs of marketing seems to have developed since then, along with the spread of the marketing concept. Nevertheless, comparatively little attention has been given to marketing costs as opposed to the extensive attention given to production costs despite the very substantial scale of the former.

16.5 Problems of marketing feedback

The importance of feedback is paramount, since unbalanced and unstable conditions, along with an inability to exercise effective control, can develop within the marketing area if prompt, adequate and undistorted feedback is not present.

However, the marketing manager can rarely benefit from the advantages of statistical feedback to provide an automatic corrective control over marketing activities in the same way that the production manager can use such control over much of his plant. It is necessary for marketing managers frequently to base their decisions on experience alone, and control by relying on their ability to motivate staff and external agents after they have personally received the feedback.

The two major reasons for the rare use of pure automatic feedback in marketing are simple to discern:

- 1 The fact that performance deviations can arise from a multitude of different causes. For example, a drop in sales volume may be caused by a price increase with elastic demand, as a result of competitive products or promotions, or as a result of a decline in the level of business activity over the trade cycle, and so forth.
- 2 The plans and standards used in the control process may be as much at fault as the apparent performance. The inability, say, of a sales representative to achieve his or her quota may be due to poor quota setting or unrealistic sales forecasting as well as poor performance. An investigation into such matters may result in a revision of standards or plans, but a feedback mechanism can hardly be expected to deal with mistakes in the basis of performance measurement.

All these problem areas demand that flexibility be maintained in relation to both the planning and controlling of marketing operations. Accordingly, the marketing manager must be able to redeploy the sales force, adapt the advertising campaign, or change the various aspects of the market offer (price, packaging, product features, etc.) to meet

changing conditions. This means that he or she is charged with the almost impossible tasks of knowing the changes to make and being able to make them.

Of the greatest importance in this setting is the suitability of the information system in enabling the marketing manager to be flexible in devising alternative plans as a matter of contingency rather than necessity. As in all such matters, the costs and benefits should be balanced in the securing of fuller control.

In considering feedback it is inevitable that delays of one kind or another will be experienced. To a large extent delay is inevitable since feedback is, by definition, *ex post*, thus only arising after the event. However, we can break delays down into their constituent categories, as shown in Figure 16.5.

If a competitor introduces a significant change in their market offering, there is a delay until this information is relayed to the marketing team. It takes time to devise a suitable response, involving revisions to marketing plans. Once the revisions are decided upon there will be a lag until they are implemented. Finally, at least for this iteration, there will be a delay following implementation before it becomes apparent what the impact of the revised course of action is on the competitive change. By the time these delays have been incurred, it is quite possible that the competitor may have established a clear competitive advantage; hence feedback delays must be minimized in responding to competitive threats – or to any other relevant change. This latter situation is illustrated in Figure 16.6, which shows positive and negative feedback loops relating to the sales growth pattern of a newly launched product.

The rate of sales of the new product (i.e. the point of intersection of the positive and negative feedback loops in Figure 16.6) is a function of sales effort on the one hand and sales effectiveness on the other. If the sales rate generates a profitable level of sales revenue, this is likely to lead to an increase in the sales budget and thus to further increases in the amount of sales effort. These linkages are shown in the left-hand

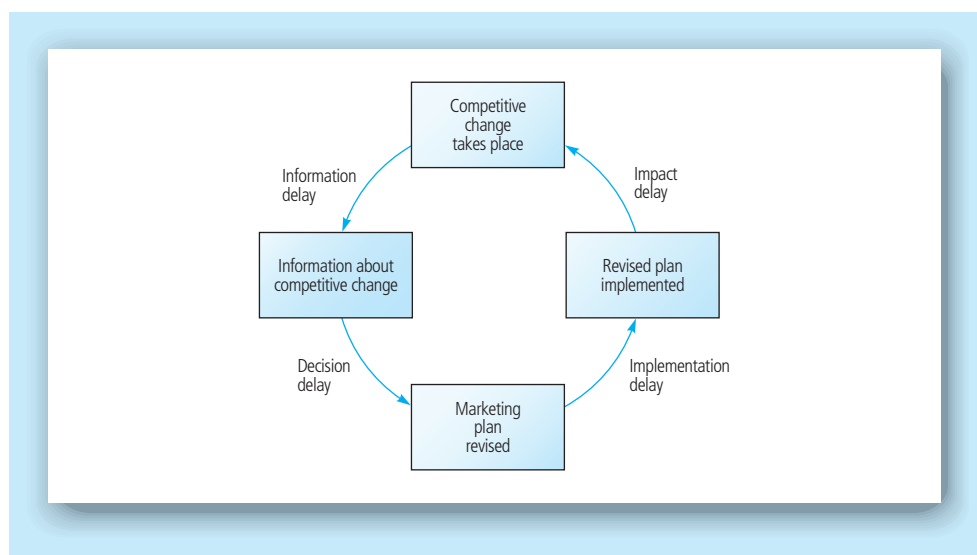


Figure 16.5 Major delays in a feedback system (adapted from Kotler, 1972a, p. 770)

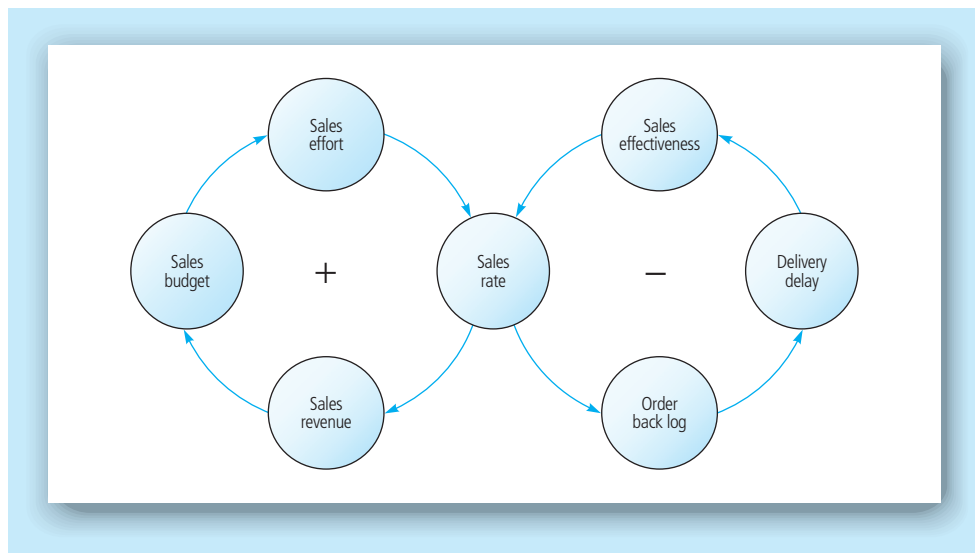


Figure 16.6 Feedback effects on sales growth (adapted from Forrester, 1965, pp. 357, 358 and 361)

(positive feedback) loop, and it would appear that continuous sales growth is in prospect. However, if there is insufficient productive capacity to meet the increased sales rate, an order backlog will build up, along with delays in delivery. This will almost certainly cause a decrease in sales effectiveness that, in turn, will dampen the sales rate, as shown in the right-hand (negative feedback) loop.

As the two loops interact, it becomes clear that sales will grow when there is available productive capacity to ensure that order backlogs are avoided. Whenever the sales rate exceeds full capacity, the result is that sales will then decrease due to the order backlogs, etc. This rather simplified example highlights not only the lack of synchronization in terms of timing, but also the importance of functional coordination.

16.6 Information adequacy

How effective managers are in their jobs will depend on how much, how relevant and how good their information is, and how well they interpret and act upon it.

Nevertheless, one hears frequent complaints from management that information is too late, of the wrong type, unverified, or even suppressed. It is evident, therefore, that if information is to be of value it must be clear, detailed, timely, accurate and complete – and must not consist of vague figures thrown out by an unplanned system.

It is not enough, for example, to observe that the purpose of a particular set of procedures is to provide the information required for planning and controlling the company's marketing operation. The information requirements must be made more explicit, and the aim of a marketing analysis system defined. The aim may be to

produce the internal data needed for effective planning and control of marketing activities and the requirements specified as follows:

Marketing planning:

- ➔ Establishing sales quotas by territory, product, industry and channel
- ➔ Developing the advertising budget and planning the allocation of funds amongst specified media
- ➔ Evaluating the character and size of the product line
- ➔ Developing additional outlets and new channels of distribution
- ➔ Determining the need for, and location of, additional warehouses.

Measurement and control of results by:

- ➔ Salesperson
- ➔ Geographic area
- ➔ Distribution channel
- ➔ Customer group
- ➔ Product.

Management must decide what needs to be done, who is to do it, ensure that it is done, and evaluate the success with which it was done. None of these functions can be performed without the necessary information. But *all* the available information may not be helpful, so the marketing manager must pay great attention to the quality, quantity and relevance of the information that he or she seeks.

It is characteristic of decision-making that in selecting one particular course of action the manager thereby prevents himself from moving in another direction. This constitutes a major difficulty in making decisions, and it follows that the manager's ability to make better decisions involves relying upon information that:

- ➔ Reduces the uncertainty associated with following one particular course of action
- ➔ Improves the power to act in the right direction.

The sources of such improvement lie in the methodical selection, collection, processing, analysis and communication of relevant information, along with the ability to formulate sound assumptions as a basis for making more accurate forecasts and decisions on the basis of that information.

However, while to manage a business is to manage information, it may be that either too much or too little information is presented. The economic wastage that results from an excess of information is *not* the incremental clerical cost of producing it, but rather the loss of executive effectiveness that it causes. This comes about in two major ways:

- 1 The manager may ignore the great volume of information that is presented to him or her, thus missing the vital as well as the irrelevant
- 2 The manager may become overburdened, or even enslaved, by the excess.

On the other hand, should there be insufficient information presented for good decision-making, it may be wise to postpone the decision until more information is available. A similar situation involving delay is that in which sufficient information is presented but its accuracy is in doubt and extra time must be spent if this accuracy is to be improved. In either situation the loss of control that results from delay must be weighed against the value of improved information in reducing the uncertainties implicit in the making of most decisions.

Only a limited amount of the information that flows through the typical organization is of real management significance. That which is of value, therefore, must be identified and developed in line with organizational requirements – observing the important information qualities of impartiality, validity, reliability and internal consistency.

The organizational structure of an enterprise and its information requirements are inextricably linked. In order to translate a statement of his duties into action, the manager must receive and use information. This involves using all the relevant data and intelligence – quantitative and qualitative, financial and non-financial – that is available, instead of merely relying on an existing system and the reports it produces.

As frequently happens, the manager may not know precisely what information he or she requires or, alternatively, what information is available. Consultants can help by observing the types of decisions made, testing the adequacy of existing information, suggesting alternative information flows, and indicating the means (and costs) of collection.

The aim, then, is to provide the right information to the right people in the right quantity at the right time, and at minimum cost. The purpose of collecting, analysing and using information is essentially the same in any size of business, whether for routine purposes or for special projects. The difference is in the relative employment of manual as opposed to computer-based systems. The increasing adoption of networked computer systems should ensure that fewer managers have cause to complain about insufficient, inaccurate or delayed information. This depends, of course, not only upon accurate information flows, but also upon systematic storage in order to facilitate rapid retrieval. The need to react quickly to a changing environment demands fast and accurate retrieval, as facts that take too long to find and compile are often useless when time is of the essence.

Discussions about information systems can usefully be considered against the background of the *theory of communication*. Relative to the broad subject of communication, there are three major problems:

- 1 The accuracy with which the symbols of communication can be transmitted – the technical problem
- 2 The precision with which the transmitted symbols convey the desired meaning – the semantic problem
- 3 The effectiveness with which the received meaning affects behaviour in the desired manner – the effectiveness problem.

Figure 16.7 illustrates how these problems can arise in the process of selecting a message and transmitting it (i.e. in the usual decision-making process of using an information system).

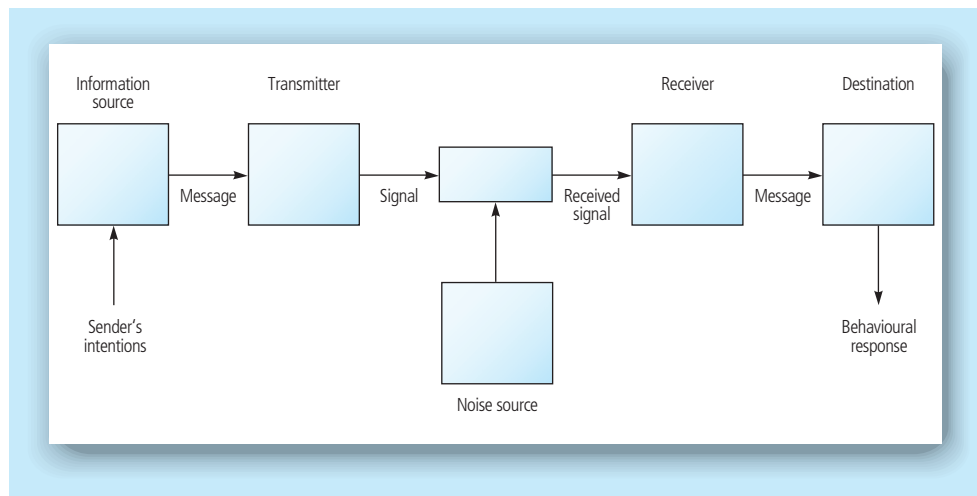


Figure 16.7 The communication system

In the process of being transmitted, it is unfortunately characteristic that certain things are added to (or omitted from) the signal that were not intended by the information source. Such errors, distortions and changes are collectively termed 'noise'.

The transmitter could take a written message and use some code to encipher it into, say, a sequence of numbers (e.g. binary digits), which could then be sent over the channel as the signal. The general purpose of the transmitter thus becomes that of encoding, and the purpose of the receiver that of decoding. However, as one makes the coding more and more nearly ideal, one is forced into longer and longer delays in the process of coding, and this requires the establishing of balance. But no matter how careful one is in the coding process, it will always be found that, after the signal has been received, there remains some undesirable uncertainty (noise) about the precise nature of the message.

It is emphasized throughout this book that managers need information to assist them in decision-making, to indicate performance and to help in making plans, setting standards and controlling outcomes. In this light, the key to developing a dynamic and usable management information system is to move beyond the limits of conventional reporting and to conceive of information as it relates to the two vital elements of the management process – planning and control.

A great deal of information, while useful for planning and control, is primarily raised for some other purpose that is only tangentially related to planning and control. This covers much of the output of the accounting routine in many companies. Such information is derived from:

- 1 Payroll procedures
- 2 The order-processing cycle, beginning with the receipt of an order and ending with the collection of accounts receivable
- 3 The procurement and accounts payable cycle.

The adequacy of these information flows as a basis for decision systems is highlighted by the omission of:

- 1 Information about the future
- 2 Data expressed in non-financial terms, such as market share, productivity, quality levels, adequacy of customer service, etc.
- 3 Information dealing with external conditions as they might bear on a particular enterprise's operations.

Effective business planning requires three types of information – environmental, competitive and operating. Accounting alone, therefore, is insufficient, but if the controller-ship function exists within a company it should ensure that economic and marketing research and forecasting are closely integrated with the systems function.

Information is the medium of control, but the flows required for planning are not necessarily the same as those required for control. Figure 16.8 outlines the general nature of information flows for planning and control. Their uses in control revolve around communication, motivation and performance, whereas forecasting,

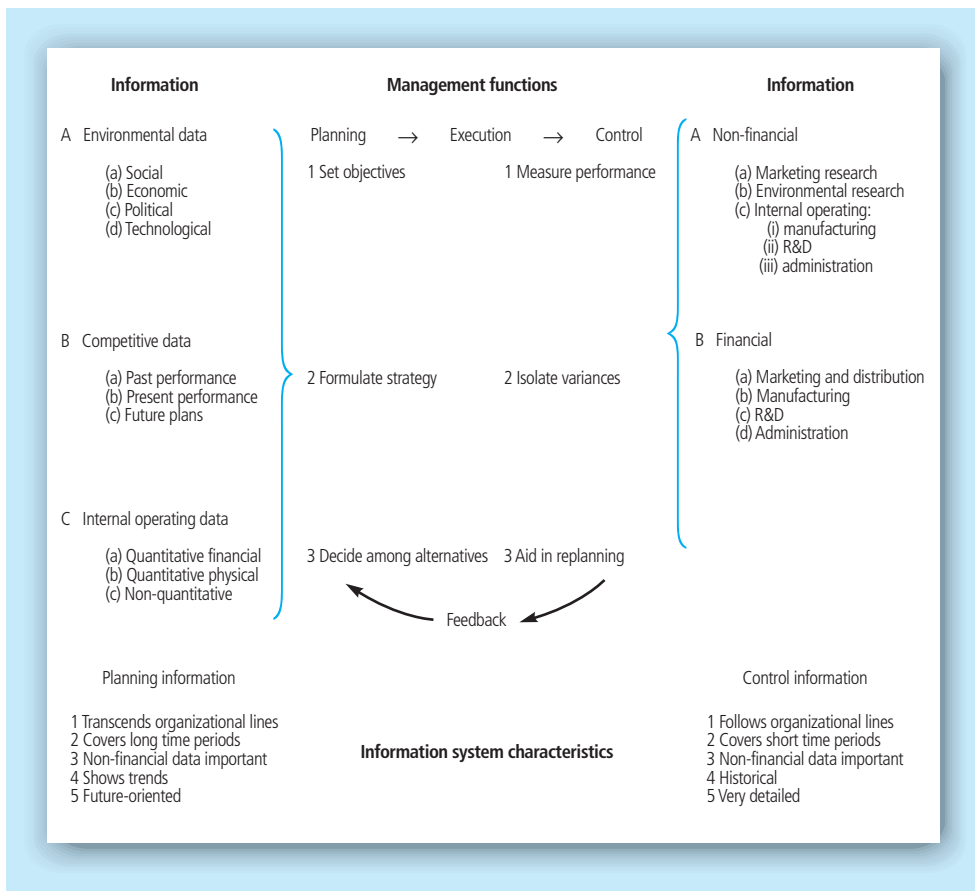


Figure 16.8 The anatomy of management information

establishing objectives and deciding among alternatives are more important in planning.

In summary, a management information system is the means of bringing to each level of management the necessary and complete information that is accurate, timely and sufficient (but not in excessive detail), so that each manager can fulfil his or her responsibilities to the organization. The central purpose, then, is to aid decision-making, and the system should be based on sound data, be sufficiently flexible to allow new techniques to be used and be operated at minimum cost commensurate with the overall system results.

The three basic information flows in marketing are:

- 1 The inflow of environmental data
- 2 Internal operating data
- 3 Communication (usually of a persuasive nature) directed to external audiences.

The effectiveness of each flow should be continually tested by the posing of questions such as:

- ➔ Does the procedure for developing delivery quotations to customers produce the information required to ensure that delivery promises are realistic?
- ➔ Does the procedure for handling customers' enquiries regarding the status of their orders provide for rendering a superior form of customer service?
- ➔ Do the sales statistical procedures produce the best internal data required to plan sales strategy, to control selling effort and to spotlight opportunities for major improvements in the distribution programme?
- ➔ Do the clerical-support activities provided for the sales force help to increase each salesperson's productivity by maximizing the amount of time spent in direct selling work?

These representative questions point to the main uses of a marketing information system in the control effort, and these fall into the following groups:

- 1 To spot things that are going wrong and to take corrective action before serious loss results, which constitutes the most fruitful and constructive use of control information
- 2 To highlight things that have actually gone wrong and guide marketing management in either cutting the losses of failure or turning apparent failure to future advantage
- 3 To determine exactly how and why failures or deviations from plan have arisen and to suggest steps that should be taken to prevent their recurrence, which is another highly constructive application, since mistakes need not be repeated even if they cannot be avoided
- 4 To find out who is to blame for failure, which, if not done in the proper way and followed up by corrective action, is the least constructive of uses.

Careful consideration must always be applied to deciding which elements of information to include in a marketing information system if cost is not to be a prohibitive factor. The types of decisions that must be made will obviously determine the types of information that the system should provide. A few examples are given below.

Pricing

Before any decision on price can be made, information should be available on:

- 1 Competitive pricing policies and product prices
- 2 Consumer attitudes to price
- 3 The relative profit contribution of the company's products at various prices
- 4 Distribution and production costs as a basis for point 3 above
- 5 Volume factors (covering both market share and potential along with capacity details).

Product management

This function depends completely on adequate flows of information from a variety of sources if it is to be successfully carried out. Information should be related to the PLC, since this indicates when to launch new products, when to phase out declining products, and when to revitalize the marketing effort behind other products. The life cycle must be viewed in terms of total sales and market penetration on the one hand, and costs and profit outcomes on the other. Forecasts of costs and revenues will follow from forecasts of total market size and the share that is to be achieved.

Sales operations

Up-to-date details of each live account should be an essential part of a marketing information system because this facilitates analyses that are invaluable to sales planning and control. In addition, accurate customer records mean that new sales staff can be assigned to territories or customer groups and learn a good deal about the accounts before visiting them: this avoids the situation when a poor salesperson is kept on because he or she is the only person knowing about his or her accounts in the absence of proper records, and the total sales job can be smoothly transferred to the case of promotion, transfer or departure only if such records exist.

Analyses from sales records will give essential information to marketing management on product profitability, customer-group profitability and regional profitability, and actual performance can be compared to the requirements of the profit plan. The extent to which variances arise from volume changes, variations in price or adjustments in the mix of products sold can be analysed, and the usual budgetary procedures will provide information on selling expenses.

The role of the salesperson as an information intermediary between the enterprise and its outlets and customers must not be overlooked, since a salesperson who appreciates the importance of rapid information dissemination and feedback can help his or her organization to promote new products as well as adapting quickly to environmental change.

16.7 Cost problems

The essence of control in marketing, as in any other activity, is measurement. In relation to marketing costs, however, this measurement is not as straightforward as it may seem.

Figure 16.9 illustrates the basic elements of financial marketing performance that need to be controlled. The importance of marketing as the 'revenue generator' is made clear, but the other aspect of the financial sphere – cost incurrence – requires further consideration (see the discussion of definitions in Chapter 3, Section 3.3).

It is invariably found that the costs stemming from marketing activities are difficult to plan and control. The lowest costs are not necessarily to be preferred, since these may not result in the effective attainment of the desired sales volume and profit. Most order-getting costs are 'programmed' (i.e. determined by management decision) rather than variable and tend to influence the volume of sales rather than being influenced by it.

The characteristics of marketing costs lead to problems in analysis. Such characteristics include (after Wilson, 1979, 1988a, 1999b; but see also Kjaer-Hansen, 1965; Wilson, 1992):

- ➔ Long-run effects (e.g. the effect of an advertising campaign lasts longer than the campaign, and is usually lagged).
- ➔ The difficulty in measuring productivity, since standards are not easily determined. (Standards can be set for sales activities, e.g. cost to create £1 of sales, average costs of each unit sold, cost to generate £1 of profit, cost per transaction, cost per customer

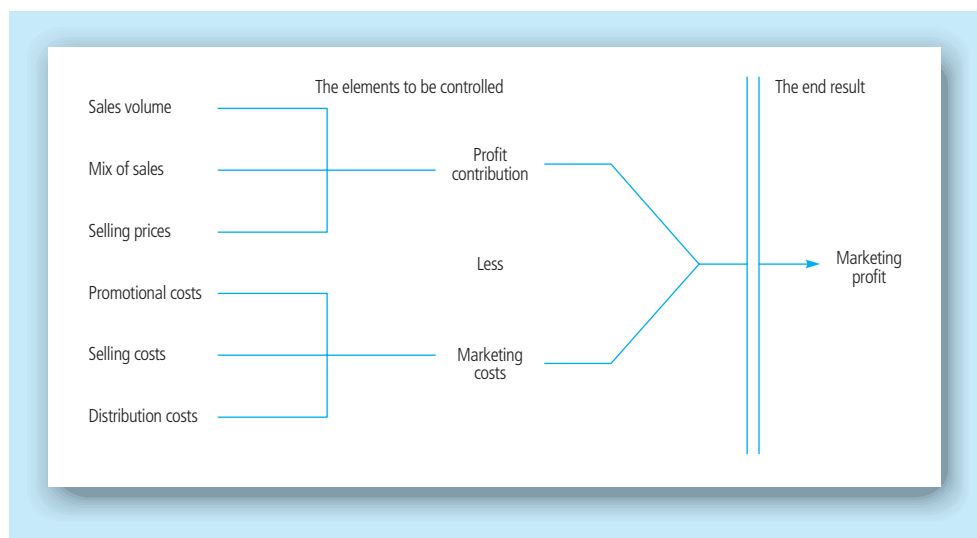


Figure 16.9 Key financial factors in marketing performance

serviced. However, in product decisions, levels of performance may be expressed in terms of the minimum required level of sales per product or the minimum profit contribution required.)

- ➔ The non-symmetrical nature of costs. (For example, costs increase more in changing from regional to national distribution than would be saved by changing from national to regional distribution.)
- ➔ Costs are frequently indivisible or joint costs, often intended to support a product group.
- ➔ Some costs have discontinuities, or a stepped character shape. The special structure of marketing costs raises problems. The cost structure of every activity is related to the interaction of fixed costs (that do not vary with the level of sales activity) and variable costs (such as shipping costs that do vary with the level of activity), and is reflected in the cost per unit produced or sold at different rates of activity. However, a large number of marketing costs are semi-fixed, including, for example, sales force costs – when a salesperson is appointed, his or her salary is a fixed cost, but the number of salespeople and the level of commission and expenses are variable, thus giving rise to a semi-fixed expenses category. In the case of marketing, which accounts for a considerable proportion of total expenditure, these stepped costs of a semi-fixed nature determine the behaviour of many other costs.

Planning in the light of these characteristics must be based to a significant extent on past experience, knowledge of competitive activities, test marketing exercises, and the estimated expenditure that desired profits at various levels of activity will permit. Accounting data in the more conventional form provides a point of departure for marketing cost analyses, but these data must be reworked on the basis of units that are subject to management control. (The relevant control unit will depend on the purpose of the analysis, but may be a product, product line, sales territory, marketing division, customer group, etc.).

- ➔ The costs of performing the two main tasks of marketing – order-getting and order-filling – have different effects and must be treated differently. The minimization principle should be applied to distribution activities, whereby a given quantitative target is aimed for at the lowest possible cost. But this principle cannot be applied to promotion, since the relationship between promotion and sales means that a variation in promotional expenditure will affect turnover, so minimal promotion may mean minimal sales. Consequently, a predictive approach must be applied and a balance struck between the desired level of sales and the level of promotional expenditure necessary to achieve that level of sales.
- ➔ The allocation of indirect marketing costs raises questions that require solutions. Along with a general increase in the proportion of fixed costs that exists in modern businesses, there has been an increasing adoption of direct costing systems (i.e. in which indirect costs are not allocated to products), which can result in indirect costs being ignored. The significance of marketing costs is so great that they must

necessarily be subjected to detailed control via responsibility centre accounting (see Chapter 17) rather than be left uncontrolled as inevitable indirect outlays.

- ➔ Further cost problems relate to the greater number of essentially different marketing conditions that have to be controlled continually and rationally. Financial control in marketing is complicated because a number of factors are influenced by the costs incurred – the product, the territory, the customer group and the salesperson's profitability, in contrast to the product alone, which is the centre of attention in production accounting. The addition of varying conditions to a series of control bases makes it difficult to know which costs are to be controlled and in relation to which base.
- ➔ Special cost control problems arise in attempting to evaluate the results of each element of the marketing mix. It is almost impossible to isolate the role played by, say, direct selling in the marketing operation from the roles played by promotion, price and product features. Measures of individual parameter effectiveness must be related to detailed market analyses on a before and after basis, but this requires a more comprehensive system of marketing intelligence and information than is found in the typical company.
- ➔ The enormous range of strategic possibilities makes it impossible to include all of them in a formal analysis. Any particular marketing strategy will involve a particular combination of the elements of the marketing mix, with particular assumed environmental conditions. The number of different possible combinations is vast. This does not mean that quantitative techniques are useless, but it does mean that major measurement problems arise to complicate the issue.
- ➔ The ever-changing environment – including the impacts of competitive activities, developments in technology, changes in consumer tastes, government action and the other factors depicted in Figure 16.1 – makes planning difficult. As a result, control is made more difficult since it is no longer clear which variances were avoidable and which unavoidable.
- ➔ In considering the range of possible strategies, the uncertainty that any one constituent factor may change at almost any time makes the question of choice even more difficult.
- ➔ The effectiveness of costs (i.e. productivity or efficiency) is not easy to measure. The interdependent variety of elements involved and their varying long- and short-run effects are the cause of this difficulty.
- ➔ The tendency towards 'conglomeration', with its attendant diversification of activities and sheer size, results in an increasing complexity that challenges the best efforts in securing control.

In addition, there is the problem relating to the setting up and operating of decision models that strictly require a knowledge of the substitution or supplementation of the elements of the marketing mix. As with the major problem areas discussed above, the latter one (i.e. understanding substitution and supplementation) is concerned with evaluating the efficiency of the marketing effort and rationalizing the pattern of expenditure. In every case it is helpful to relate marketing costs to a profit base, since this is both a measure of efficiency and of goal attainment.

Essentially, costs are incurred in marketing to obtain a sufficient level of sales to give the desired profit. The necessary sales volume can be expressed as either a particular market share or a desired depth of market penetration, in which event the interrelationships are as illustrated in Figure 16.10.

The important point made by Figure 16.10 is that increasing profit is not necessarily a function of increasing market share, nor necessarily of increasing marketing expenditure. A frequently met obsession with sales managers is that of maximizing *sales volume*, whereas the action that they should be recommending is the optimizing of profits. The relationship between sales and profitability should follow one of the following patterns:

- 1 An increase in sales with a proportionately lower increase in costs should lead to improved profitability
- 2 An increase in sales with constant costs should improve profitability
- 3 An increase in sales with a decrease in costs should improve profitability
- 4 The maintaining of sales at a constant level with a decrease in costs should improve profitability.

The outcome of these various matters in operational terms is that, in order to improve the effectiveness of control in marketing, the following requirements must be met:

- ➔ A frequent and accurate monitoring of the three main constituents discussed – costs, sales volume and profit

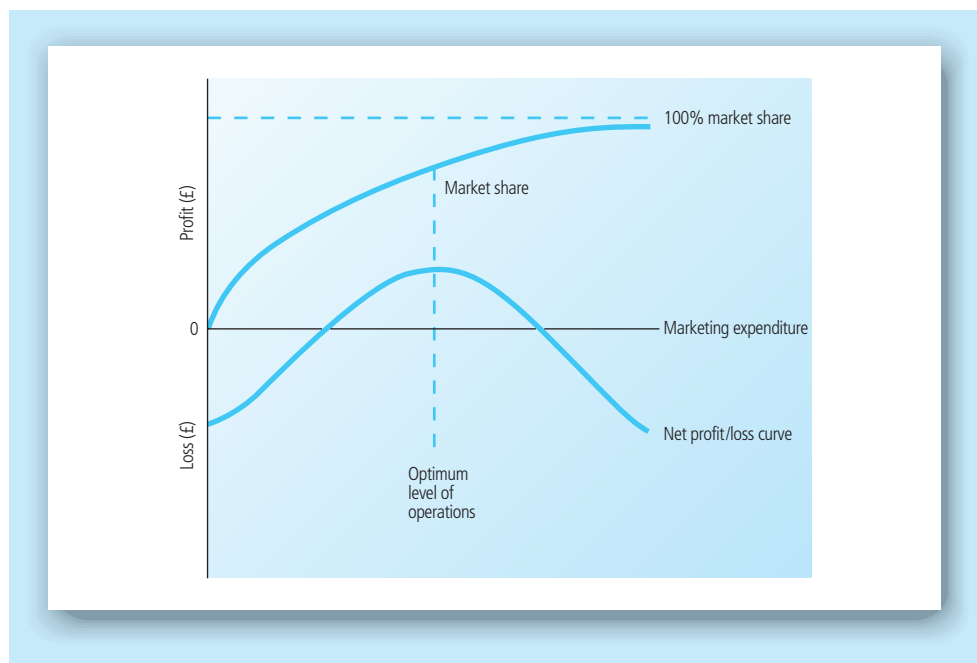


Figure 16.10 Marketing costs, profits and penetration

- ➔ A regular monitoring of the total market environment in order to detect movements and aid in evaluating the effectiveness of marketing expenditures
- ➔ A detailed breakdown of marketing effort (expressed in financial terms) into functional/managerial responsibility centres.

In many manufacturing enterprises the costs of marketing greatly exceed the costs of production, yet very little attention has been given to the analysis of marketing costs compared to the extensive attention given to production costs.

It is instructive to consider some of the reasons for this state of affairs, and these include the following:

- ➔ While the costs of productive labour and materials can be associated with specific machines, processes and products, the costs of the elements of the marketing mix cannot be associated so readily with outputs (such as sales and profit levels).
- ➔ Marketing activities tend to be less routine and repetitive than is the case with many standardized production activities.
- ➔ The dependency of marketing activities on outside agencies distinguishes them further from the more internally regulated and predictable manufacturing activities.
- ➔ Marketing activities tend to be performed in many locations, often distant from each other, rather than on one site.
- ➔ Within manufacturing there is the relatively simple choice to be made between using the product or the process as the cost object. In contrast, within marketing there are many more possible cost objects – such as the product line, product range, customer, customer/industry group, salesperson, sales territory, size of order, channel of distribution, etc.
- ➔ The cost behaviour patterns of many marketing activities are the reverse of those for manufacturing activities in the sense that order-getting costs tend to determine sales volume (hence manufacturing costs). Order-getting costs are committed in anticipation of sales. Whereas manufacturing costs *necessarily* increase as sales volume rises, order-getting costs must be *permitted* to increase. Thus, for a given level of activity, the lower the manufacturing costs the better, while the right level (and mix) of marketing costs is a matter of judgement. It can be argued that the 'best' approach is to focus on *technical efficiency* in relation to order-getting outlays (i.e. to maximize the outputs for a given level of input) and on *economic efficiency* in relation to manufacturing outlays (whereby one aims to minimize the inputs for a given level of output). This indicates the analytical complexity inherent in accounting for marketing costs.
- ➔ Since marketing costs are rarely included in inventory valuations (being treated instead as period costs), financial accounting principles, etc., provide little incentive for detailed analysis.
- ➔ Manufacturing activities typically have a short-run focus, whereas marketing operations must pay attention to long-run considerations. This also produces a conflict

over financial accounting practice in that promotional outlays in a particular period are invariably matched with the sales achieved during that period, notwithstanding the fact that much promotional expenditure (and other order-getting outlays) are in the nature of capital investment intended to stimulate sales over several time periods.

- ➔ Personnel in manufacturing roles often have a greater cost consciousness and discipline than their marketing colleagues.
- ➔ The risk of suboptimization (whereby one particular aspect is maximized to the possible detriment of the whole) is much greater in a complex marketing context than it is in manufacturing.
- ➔ Many marketing activities have an intangible quality that distinguishes them from the tangible characteristics of production activities. Among the intangible factors is the psychological dimension of purchase predisposition.

Although these problems are many, they do not mean that no attempts should be made to plan and control marketing activities successfully. However, there is evidence to show that most accountants are not yet in tune with marketing thinking. First, accountants lack the knowledge and understanding of the information requirements necessary for the marketing function. Second, accountants in general do not accept marketing as a distinct and separate managerial function. This seemingly blind attitude was found in a survey (reported by Williamson, 1979) to be well ingrained and is an appalling indication of the failure of accountants to see the real essence of business activity (i.e. product–market interactions) and of a misplaced arrogance in looking down on a group whose purpose and function they so clearly misunderstand. Lastly, organizational design may impede adequate communications between functions. This could (and does) happen to such an extent that the accounting and marketing departments may be geographically distant from one another, although marketing *activities* are geographically dispersed in any event.

A long-established organizational design could also hinder a new pattern of resource allocation. It may be such that available resources are channelled towards the order-filling production and distribution functions rather than to the order-getting processes such as advertising, sales promotion and personal selling. Allocating to the former in preference to the latter is tantamount to saying that a firm can sell what it can make – the old sales concept – rather than the marketing concept of making what the consumers want.

The practical consequences of these inhibitions manifest themselves in the ways described below.

Schiff and Mellman, as long ago as 1962, in an almost isolated empirical study, noted deficiencies of the accounting function in supplying marketing with sufficient information in certain areas, such as:

- ➔ Lack of effective financial analyses of customers, channels of distribution and sales-people
- ➔ An overemphasis on net profit-based reporting (or the full cost allocation approach)

- ➔ Inadequacies in marketing cost classification (e.g. little distinction was made between fixed and variable costs or between controllable and non-controllable costs)
- ➔ Return on investment was rarely used
- ➔ There was a general lack of integration between the accounting and marketing functions.

Goodman (1970), in a later study, found that accounting did not appear to have made much progress in satisfying the needs of marketing planning. These areas of failure he saw as being:

- ➔ Non-use of sufficient return-on-investment criteria
- ➔ Insistence on using the traditional full costing for decision analyses
- ➔ Inability to separate the reporting obligation of accounting from the service function
- ➔ Imperfect understanding of the marketing concept
- ➔ Lack of minimum acceptable goal criteria
- ➔ Disregard for the implications of working capital.

As various authorities have observed, there are fundamental differences between accounting and marketing. For example, accounting builds from an analysis of internal financial data, whereas marketing builds from the diagnosis of external market situations. The respective perspectives are literally poles apart (see Simmonds' Foreword in Wilson, 1981). Thus, the marketing view that profit stems from an enterprise's position relative to its competitors (i.e. reflecting its differential advantage) and is not a function of arbitrary financial periods is not likely to meet with full-blooded approval – or even understanding – on the part of the average accountant, who invariably fails to link his own profit measures either to market share or to changes in market size.

16.8 Marketing orientation

In the absence of marketing orientation it will be difficult to implement and control marketing activities effectively, since there will be no marketing plan. (The following discussion draws heavily from Wilson and Fook (1990).)

The well-documented and long-run decline in Britain's industrial competitiveness has often been attributed to a lack of adequate marketing orientation on the part of UK firms. It is widely felt that the more successful enterprises demonstrate a higher level of marketing orientation than their less successful rivals, although hard evidence to support this is rather rare. Nevertheless, despite a minority view that a preoccupation with marketing orientation is a cause of competitive decline when the former is focused on the short-run requirements of customers, there is a strong case for arguing that marketing

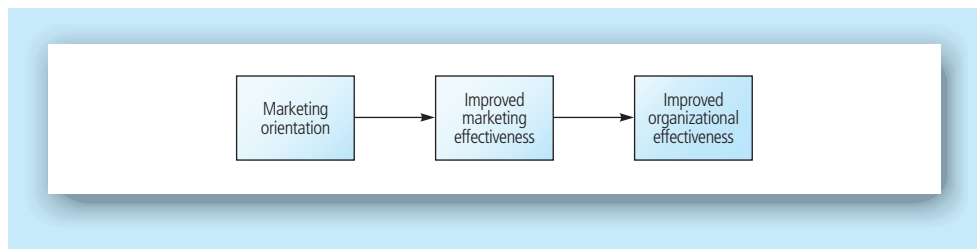


Figure 16.11 The role of marketing orientation (source: Wilson and Fook, 1990, p. 22)

orientation leads to improved marketing effectiveness, which in turn leads to improved corporate effectiveness (see Figure 16.11).

If a business is to seek to improve its effectiveness in this way, it needs to ask the following questions:

- ➔ What is marketing orientation?
- ➔ How can marketing orientation be recognized?
- ➔ How can marketing orientation be developed?

In this section we will address these three questions and suggest how an enterprise might develop its marketing orientation in order to improve its effectiveness.

What is marketing orientation?

A business can exhibit any one of a number of different orientations, such as:

- ➔ Production orientation
- ➔ Cost orientation
- ➔ Engineering orientation
- ➔ Sales orientation
- ➔ Marketing orientation.

The last of these is the broadest and highlights the concern the enterprise has with satisfying its customers via the adoption of the marketing concept.

Marketing orientation is concerned with implementing the marketing concept and, as such, is action oriented. However, rather than seeing it as a set of activities, it is more helpful to think of marketing orientation as a process by which an enterprise seeks to maintain a continuous match between its products/services and its customers' needs. With a little elaboration we can build this into a formal definition:

“Marketing orientation is the process by which an enterprise's target customers' needs and wants are effectively and efficiently satisfied within the resource limitations and long-term survival requirements of that enterprise.”

Doubt has been expressed by many marketing authorities on the extent to which the philosophy underlying the marketing concept has been adequately implemented – hence upon the extent to which marketing orientation really exists. Given that the practical manifestations of marketing orientation are not well known prompts our next question.

How can marketing orientation be recognized?

While it should not be assumed that the following items are in order of priority, it is intended that they should be seen as constituting a reasonably comprehensive listing of the requirements that must be met if marketing orientation is to be effective:

- 1 Is there a good understanding within the enterprise of the needs, wants and behaviour patterns of targeted customers?
- 2 Is the enterprise profit-directed rather than volume-driven?
- 3 Does the chief executive see him- or herself as the enterprise's senior marketing strategist or 'marketing champion'?
- 4 Does the enterprise have a market-driven mission (for example, a cosmetics company should see itself as being in the beauty business and the Post Office should see those in its market as users of communications)?
- 5 Do the enterprise's strategies reflect the realities of the marketplace (including the competitive situation)?
- 6 Is marketing seen as being more important by managers within the enterprise than other functions and orientations?
- 7 Is the enterprise organized in such a way that it can be more responsive to marketing opportunities and threats than its less successful competitors?
- 8 Does the enterprise have a well-designed marketing information system?
- 9 Do managers within the enterprise make full use of marketing research inputs in their decision-making?
- 10 Are marketing costs and revenues systematically analysed in relation to marketing activities to ensure that the latter are being carried out effectively?
- 11 Is there a strong link between the marketing function and the development of new products/services?
- 12 Does the enterprise employ staff in the marketing area who are marketing professionals (rather than, say, sales oriented in their approach)?
- 13 Is it understood that marketing is the responsibility of the entire organization if it is to be effective?
- 14 Are decisions with marketing implications made in a well-coordinated way and executed in an integrated manner?

These points can be linked to McKinsey & Co.'s 'Seven S' framework to show what is required in an effective, marketing-oriented enterprise (see Figure 16.12).

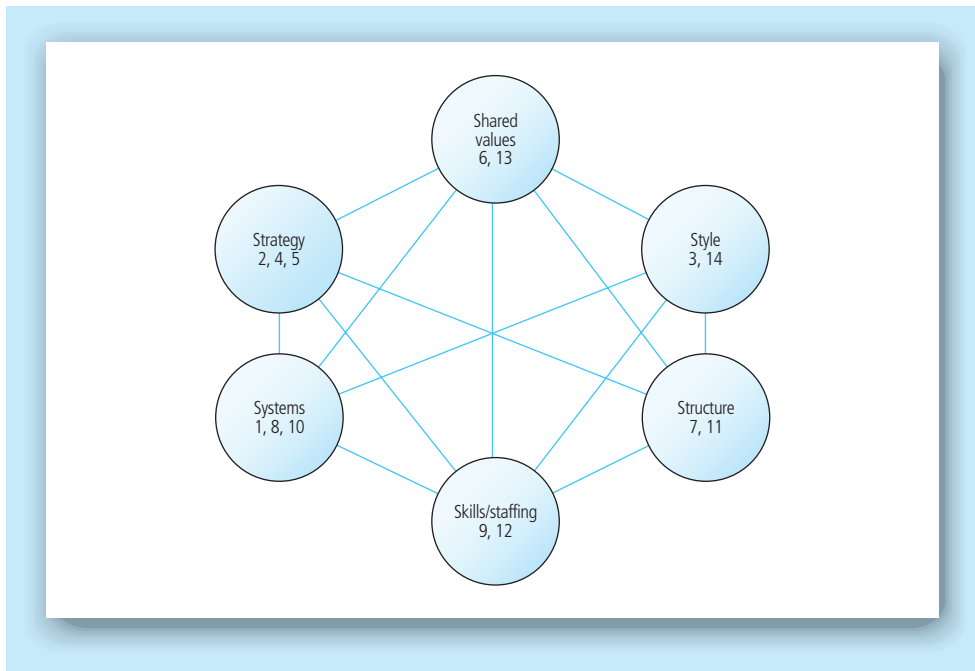


Figure 16.12 Requirements of marketing orientation (adapted from Wilson and Fook, 1990)

If an enterprise's responses to the points listed above contain a lot of negative answers, the next question becomes important if matters are to be improved.

How can marketing orientation be developed?

Developing marketing orientation is a long-term process and needs to be thought of as a form of investment. To a large extent this investment is in changing the organization's culture so that common values relating to the need to highlight service to customers, a concern for quality in all activities, and so forth are shared throughout the organization. This is not an appropriate target for the 'quick fix'.

Steps to be taken in order to enhance an enterprise's degree of marketing orientation are:

- 1 Secure top management support, since a bottom-up approach would be doomed from the outset given the company-wide implications of marketing orientation.
- 2 Specify a mission relating to the development of marketing orientation. This should have a plan associated with it, and the necessary allocation of resources to enable it to be executed.
- 3 A task force should be set up as part of the plan to bring together managers from across the company (and consultants who can help considerably) to carry out tasks such as:
 - ➔ Identifying the current orientation of the company

- ➔ Carrying out a training needs analysis as a basis for a management development programme to change the company's culture in a desired way
 - ➔ Advising on structural changes within the company to support marketing activities
 - ➔ Ensuring commitment to change via the system of rewards (such as bonuses and promotion) that will apply to facilitate change.
- 4 Maintain the momentum of change by means of continuous monitoring of marketing performance to ensure that inertia does not set in. Progress towards improved marketing orientation can be measured by regularly asking questions of the following type:
- ➔ Are we easy to do business with?
 - ➔ Do we keep our promises?
 - ➔ Do we meet the standards we set?
 - ➔ Are we responsive?
 - ➔ Do we work together?

These elements of a process for developing marketing orientation are shown in Figure 16.13.

Developing marketing orientation requires a focus on customers, competitors, the changing environment, and company culture. Achieving it is an expensive and time-consuming endeavour. However, those companies that really make the effort are likely to have a higher level of marketing effectiveness and greater organizational effectiveness than their competitors.

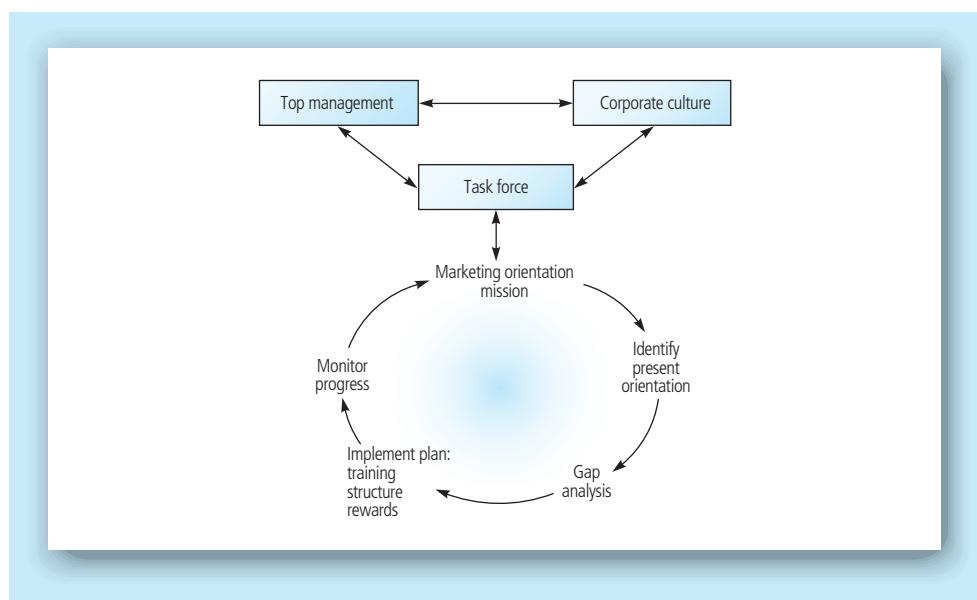


Figure 16.13 Steps in developing marketing orientation (source: Wilson and Fook, 1990, p. 23)

Developing an internal marketing programme

We suggested at an earlier stage in the text that the marketing concept is based upon three principal lines of thought:

- 1 A market focus
- 2 A customer orientation
- 3 Coordinated marketing.

However, in the case of the third of these – coordinated marketing – a problem that is experienced all too frequently is that not all employees are trained or motivated to work together sufficiently closely. The net effect of this is that the organization then works less than optimally. The implications of this are, in turn, exacerbated as markets become more competitive and the difficulties of achieving – and sustaining – a meaningful competitive advantage become ever greater. A programme of internal marketing in which there is a heightened emphasis upon staff training, motivation, empowerment and working in teams is therefore a potentially powerful contributor to organizational performance and, in particular, to the achievement of customer satisfaction. An effective internal marketing programme is therefore likely to be characterized by:

- ➔ A fundamental acceptance of its strategic significance by senior management
- ➔ A willingness on the part of senior management to change the structure of the organization so that the importance of front-line staff is recognized and reflected in the structure of the organization – it is this which was referred to earlier in our discussion of the right-side-up organization
- ➔ The development and communication of clear values
- ➔ The empowerment of front-line staff so that they are given greater freedom to make decisions that will solve customers' problems
- ➔ A commitment to staff development and training
- ➔ A system that recognizes staff excellence and rewards it accordingly
- ➔ The development of strong teams
- ➔ The identification of what Jan Carlzon of Scandinavian Airlines referred to as 'moments of truth' (these are the points of contact between the customer and a member of staff where the customer can be won or lost by the quality of service and personal contact that he or she receives) and the conscious thinking through of the ways in which these can best be capitalized upon by staff training and behaviour
- ➔ The setting of particular standards, a fundamental commitment to their achievement and a total lack of willingness to compromise in doing this, and the development of effective feedback systems so that the effectiveness of the internal marketing programme can be monitored (see Illustration 16.1).

Illustration 16.1 The AA and Unisys and their use of internal marketing

Customer care and satisfaction are fundamental and long-standing elements of the Automobile Association's marketing strategy. However, having positioned itself in the 1990s as 'the country's fourth emergency service' and recognizing that customers generally have ever higher levels of expectation of the organizations they deal with, the AA recognized that there was a need within the organization to re-evaluate how they might best deliver this. The answer, they felt, lay in a greater emphasis upon staff motivation and that the recognition of the achievements of its workforce could often be as effective as financial rewards. This led to the development of a number of reward schemes, with staff being nominated by their supervisors when it was felt they had 'gone the extra mile' to improve customer care and quality.

Although the AA has traditionally been characterized by a family-type atmosphere, something which in many ways made internal marketing a relatively straightforward exercise, Unisys, in common with many large multinationals, was forced to reinvent itself in the 1980s in order to focus upon customers

rather than being product-driven. It chose to do this by putting customer service and quality ahead of price, but in the process was forced to make major cultural changes. Staff were retrained and taught to develop completely new mindsets. An important part of this involved a greater degree of staff empowerment, which, for Unisys, meant explaining to staff what they *could not* do and then letting them decide how they wanted to run the business. At the same time, they developed a rewards system designed to recognize staff initiatives to improve quality and customer care.

Underpinning all of this is the belief that to understand customer service means first thinking like a customer. Unisys therefore encourages staff to imagine life on the other side of the desk and, where necessary, to take the unprompted action that can make or break customer satisfaction. However, doing this involves creating the appropriate culture rather than simply emphasizing training.

Source: *The Sunday Times*, 11 June 1995, p. 13.

It follows from this that internal marketing should precede external marketing. This can be illustrated by the way in which, although it is relatively easy for an organization to commit itself to high levels of service, these are unlikely to be achieved until and unless the staff understand the real importance of service excellence and have been trained to deliver this. It is because of this that an increasing number of organizations, such as the AA and Unisys, are restructuring so that the typical organizational chart is inverted and a right-side-up organization created (the right-side-up and wrong-side-up organizations were discussed in Chapter 1). In this way, the pivotal importance of front-line staff to the delivery of customer satisfaction is highlighted (see Figure 16.14 and Illustration 16.2).

Illustration 16.2 The rise and rise of internal marketing

A survey of delegates at the 1996 Marketing Forum revealed that 78 per cent of their organizations were 'fairly' or 'very seriously' committed to internal marketing. This was reflected by the way in which budgets for internal marketing were being raised, some-

times dramatically, to ensure that the corporate message was being effectively communicated to employees and the corporate identity was being maintained at all levels.

Source: *Marketing*, 12 December 1996, p. 4.

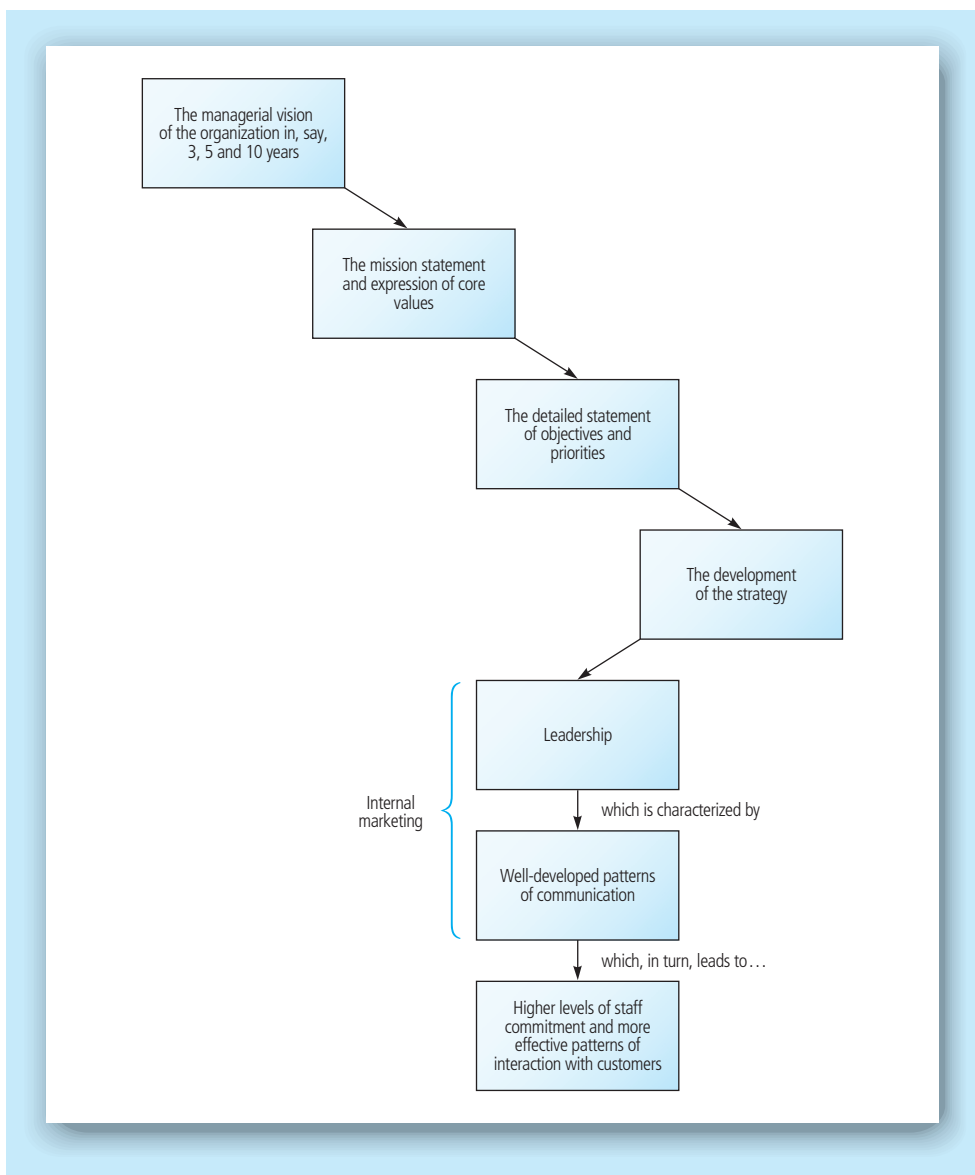


Figure 16.14 The role of internal marketing

16.9 Planning orientation

What benefits does planning offer? Among the most important are the following:

- ➔ Planning requires effective communication, which improves the functional coordination of efforts throughout the organization (see below). In part this will be due to the clearer definition of objectives and policies that planning presupposes (see Porter and Roberts, 1977).
- ➔ Planning motivates by showing what is expected of each member of the organization, and if plans have been agreed between superiors and subordinates in an appropriate way, there should be a high degree of commitment to their attainment.
- ➔ Planning should lead to the making of better decisions by requiring an explicit statement of assumptions underlying choices, as well as the enumerating of alternative courses of action and relevant states of nature. In other words, systematic thought needs to be given to the future, thereby ensuring that effort is not wholly absorbed in the present.
- ➔ Planning encourages a favourable attitude towards change, which is due in part to a better state of preparation for sudden variations (anticipated and otherwise) so that they can be turned to the organization's advantage, but which is also due to constantly striving to create a desired future. As pointed out by Charles St Thomas (1965, p. 9):

“... the manager who successfully undertakes his planning work must begin by recognizing that the primary key to his effectiveness lies in his capability to adapt.”
- ➔ Planning enables standards of performance to be established, and these in turn allow the control process to be effective.

Despite the obvious appeal of planning there are those who believe that any attempt to lay out specific and rational plans is either foolish, dangerous or downright evil. Churchman (1968, pp. 14 and 215–26) refers to these individuals as anti-planners:

“... there are all kinds of anti-planners, but the most numerous are those who believe that experience and cleverness are the hallmarks of good management.”

It is easy to see what a contrast there is between the 'practical' approach based on intuition and experience and the more analytical approach being recommended in this book. Particular arguments against the adoption of planning in any given organization might include the fear that it will take power away from the chief executive, or make excessive demands on line managers, or consume time and other resources for results that cannot be guaranteed, or be a waste of effort because market forecasts are never wholly correct, and so on (see Hussey, 1971, pp. 9–10).

Failings in strategic marketing planning may arise as a result of:

- 1 A chief executive who is not committed to planning, or who makes every decision of significance alone.

- 2 A planner who is too narrow in his view, or too restricted in his ability, to consider all the essential aspects of marketing planning and their impacts throughout the organization.
- 3 Small-scale operations that are unable adequately to support a planning function.
- 4 A state of corporate decline that is progressing too rapidly for planning to arrest it (see Stonich, 1975).
- 5 Too much emphasis being placed on *where* to compete and not enough on *how* to compete given that the latter rather than the former secures sustainable competitive advantage (see Simmonds, 1985).
- 6 Too little focus on uniqueness and adaptability with a tendency in many industries (e.g. security dealing, semi-conductors, biotechnology, retailing) towards a herd instinct that encourages sameness on the one hand and a limited adaptive capability on the other.
- 7 Inadequate emphasis on *when* to compete – such as being first into new markets or first with new products as opposed to being fast followers.
- 8 Too much attention being paid to competing organizations rather than focusing on individuals as competitors (e.g. chief executives' pronouncements in annual reports, etc., effectively lock their organizations into specified courses of action that highlight opportunities for others).
- 9 Using the wrong measures of success – especially when these favour short-term results to the detriment of long-term performance. Assessing marketing performance is difficult due to problems of both definition and measurement. The traditional approach has been to attempt to measure outputs relative to inputs (e.g. marketing productivity analysis – see Chapter 3). While this is feasible in broad terms, e.g. for an entire organization, it becomes more problematic as one looks in more detail at specific activities or marketing programmes. Much in marketing is unquantifiable and it follows that inputs and outputs cannot be adequately measured and manipulated if some are qualitative. Moreover, the typical result of relating inputs and outputs is the assessment of efficiency, whereas effectiveness is of much greater significance.
- 10 Planning becoming a mindless ritual rather than an opportunity for sound strategic thinking.
- 11 Senior staff get involved in 'us versus them' battles with lower-level colleagues.
- 12 Information that is held in one part of the organization is withheld, or only begrudgingly provided, to those who need it elsewhere in the organization.
- 13 Key information on which plans are based (such as sales estimates) is biased to justify a particular position rather than providing a sound basis for comparing alternatives (see Lowe and Shaw, 1968).
- 14 The results of the planning process are ignored when actual decisions with strategic consequences for marketing are made (such as acquisitions).

(See Bleeke (1988) for a fuller discussion of points 5–9. Further coverage of points 10–14 can be found in Chapter 9 of Abell and Hammond (1979).)

16.10 Organizational issues

Introduction

Suggestions have been made, for example by Hayhurst and Wills (1972), that changing organizational needs may lead to the disintegration of a corporate marketing organization. This could be achieved by the separation of operational activities on the one hand and planning activities on the other. Selling and distribution might fall into the former category.

It is clear (e.g. Hooley et al., 1984) that the increasingly competitive environment in which marketing is undertaken has created a recognition that organizational flexibility is a necessary element of marketing orientation.

To a large extent the successful implementation of marketing strategies relies upon an appropriate structure. As Hughes (1980) has pointed out:

“Many marketing plans fail because the planner did not consider the fact that the organization was not capable of implementing the plan. Short-range plans will require adaptation to the existing organization, whereas long-range plans may require redesigning the organization.”

There is thus an interdependence between strategy and structure, and this warrants our considering the issue of organizational structures in marketing. For example, organizing marketing around products or markets – rather than around functional tasks – can give an important source of competitive advantage (see Levitt, 1980). Moreover, many writers have argued that organizational structure is a key determinant of marketing effectiveness, marketing failures and the successful implementation of the marketing concept (see, for example, Cascino, 1967; Tookey, 1974; Hakansson et al., 1979).

Organizational design

Apart from serving as a means of linking the organization to its environment, thereby ensuring that the outputs and activities are compatible with the external milieu in which the organization is operating, planning also serves as a means of integrating the goal-striving activities of the organization into a coordinated whole. This latter role is facilitated by effective organizational design, as Nathanson et al. (1982, p. 93) point out:

“Organization design is conceived to be a decision process to bring about a coherence between the goals or purposes for which the organization exists, the pattern of division of labor and interunit coordination and the people who will do the work.”

Organization design has similarly been defined by Pfeffer (1978) as:

“... the process of grouping activities, roles or positions in the organization to coordinate effectively the interdependencies that exist... the implicit goal of the structuring process is achieving a more rationalized and coordinated system of activity.”

In considering a framework for organizational design (OD) we can be guided by Child's 1977 classification of the major issues within the domain of OD:

- ➔ Allocating task responsibilities to individuals
- ➔ Designating formal relationships leading to hierarchical levels and spans of control
- ➔ Grouping individuals into departments, departments into divisions, etc.
- ➔ Designing systems for integration and communication
- ➔ Delegating authority and evaluation
- ➔ Providing systems for appraisal and reward.

Galbraith has developed a conceptual framework in which a number of organizational variables over which choices must be made by managers in creating an organization design are identified. These are task, structure, information and decision processes, reward systems and people. In choosing how to balance these elements, top management has considerable scope for varying and influencing all five. However, the organization design that emerges should be one that fits the product – market strategy of the enterprise. If a consciously developed strategy is to be effectively implemented, this needs to be done via a properly designed organization: the process of organization design is the link between strategy formulation and implementation.

Nathanson et al. (1982, p. 110) have proposed a series of 'fit' relationships that indicate the best 'fit' between particular strategies and structures. The main choices consist of:

- 1 A single business with a functional structure
- 2 A business having related products (which implies common technology and possibly common manufacturing facilities) with a multidivisional structure
- 3 A business having unrelated products (hence no technological commonalities) with a holding company structure.

An enterprise's chosen strategy is a key determinant of its relationship with the environment, which in turn places particular information-processing requirements on the management of the enterprise. Different strategies help in defining different environmental settings, thus giving rise to different information-processing requirements. (As an example, consider the different circumstances of an enterprise choosing a strategy taking it into a high-technology sector and another enterprise adopting a strategy that focuses on a traditional, labour-intensive sector.) A good fit is found when the structure – which includes information processing among its elements – matches the strategy and produces the desired outcomes.

Figure 16.15 illustrates the best combinations of strategy and structure ('product relatedness' refers to common technology and 'market relatedness' to common customers).

Piercy (1985) has put forward a very powerful case for viewing the marketing organization as an information-processing structure. His basic model is shown in

Strategic situation Product–market strategy	Operating organization Structure	Planning process
1 High product relatedness with high market relatedness	Functional structure: necessary because of product market and geographic relatedness. No need to divisionalize.	Business-level planning focus on: competition, competitive advantage, distinctive competences, product–market segmentation, stage of product–market evolution. Synergy-integration of different functional areas. Market share, production efficiencies, technological innovation.
2 High product relatedness with low market relatedness	Functional structure: necessary because of product relatedness.	SBU's to deal with the market or geographic diversity, to focus attention on each market and allocate the functional resources to markets in most efficient manner, and to keep abreast of each market's opportunities and threats.
3 Low product relatedness with high market relatedness	Divisionalized structure: necessary because of different technologies and manufacturing processes inherent in the product.	SBU's to provide strategic approach to the market and eliminate counter-productive competition within the marketplace.
4 Low product relatedness with low market relatedness	Multidivisional or holding company structure: the high degree of diversity calls for much decentralization.	SBU's, because of the large size of most of the firms in this category, the focus is primarily on goal formulation and setting on a financial basis, to place emphasis on the 'stars' that are small and might otherwise be overlooked, to serve as a span of control reducer, and to overlap any interdependencies (relatedness) that might exist.

Figure 16.15 Fit relationships (source: Nathanson et al., 1982)

Figure 16.16. In developing this model, Piercy reviewed major approaches to organization theory. His most significant point of departure from the traditional approach lies in his examination of information-processing models of structure and the implications of such models for organizational power and political behaviour.

Such an approach focuses on the processes required to cope with task and environmental uncertainty (Piercy, 1985, p. 38):

“... in the sense both that uncertainty imposes an information-processing burden that a given structure may or may not be able to cope with, and that coping with these uncertainties critical to the organization provides a source of power and political strength to certain subunits or individuals.”

The link between marketing structures and the environment, and hence to marketing decision-making, is provided by the idea of information processing. The question follows as to which organizational structure is best suited to processing the information

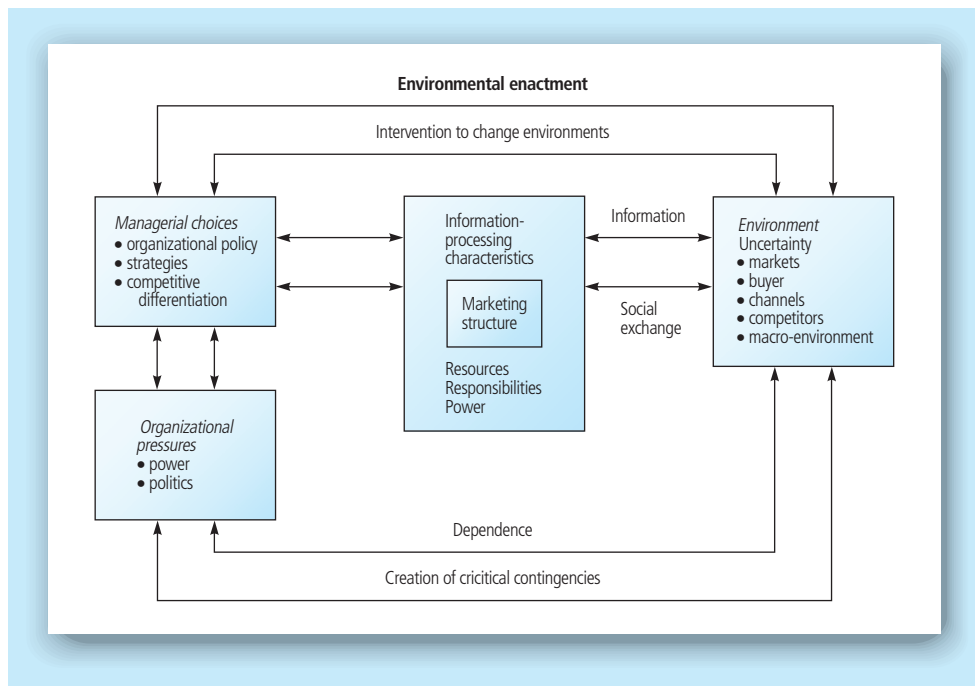


Figure 16.16 The organizational dimensions of marketing (source: Piercy, 1985, p. 17)

required by marketing tasks, but this question has been largely ignored by marketing experts.

One approach to dealing with some aspects of the question is provided by Weitz and Anderson (1981). They suggest that the environment may be analysed in terms of:

- ➔ *Complexity* – which refers to the number of elements relevant to the organization (such as the number of product markets served)
- ➔ *Interconnectedness* – which is concerned with the interdependence of key elements within the environment
- ➔ *Predictability* – which relates to the degree to which the environment is stable or unstable, hence to the degree of uncertainty.

See Figure 16.17, which relates these aspects of the environment to marketing organizations.

The tendency towards increasingly unpredictable and discontinuous change implies that organizational forms need to be considered as being short term and subject to adjustment in response to frequent changes in the contingencies that underpin them. Doyle (1979) points to such factors as an increased focus on integration, a change from volume to productivity orientation and a move towards portfolio management as indicating that a traditional functional structure is becoming less and less appropriate. A more complex and ambiguous set of alternatives is to be found in divisional and matrix forms of organization, but these too may be transitory.

		Environmental unpredictability and interconnectedness	
		Low	High
Environmental complexity	High	<p>1 <u>Decentralized organization</u> e.g. product divisions High differentiation i.e. marketing is organized around different products <u>Conventional integration methods</u> e.g. hierarchical reporting, planning systems</p>	<p>2 <u>Matrix organization</u> e.g. organized into product groups drawing on functional resources High differentiation i.e. marketing is organized around different projects <u>Unconventional integration methods</u> e.g. programming managers</p>
	Low	<p>3 <u>Functional organization</u> e.g. sales, advertising, marketing research, etc. Low differentiation i.e. marketing is general for all products and markets <u>Conventional integration methods</u> e.g. hierarchical reporting, planning systems</p>	<p>4 <u>Brand management</u> e.g. product managers plus functional specialists Low differentiation i.e. marketing is general for all brands <u>Unconventional integration methods</u> e.g. brand and market managers</p>

Figure 16.17 Environmental dimensions and marketing organization (adapted from Weitz and Anderson, 1981)

An extreme view has been put forward by Haller (1980a, b) and Wills (1980a, b) to suggest that marketing – as a unified function – will disappear either as a result of its being subsumed within strategic management (see Figure 16.18), or as a result of marketing planning being taken under the wing of a corporate planning department and a sales director on the one hand and a distribution director on the other emerging to take over the operational activities, with no marketing director.

Such views contrast sharply with the traditional approach to marketing structures, where the primary concern has been with differentiation within the marketing department. The basis of this differentiation may be products, functions, markets, geographical regions or customer groups, each of which allows some degree of specialization via the division of labour (see Figure 16.19).

It has been argued that the functional structure is likely to be abandoned in favour of a product-based structure as the number of products in the range increases (Hughes, 1980), or in favour of a market-based structure as the number of markets served increases (Ames, 1971). A further variation is to adopt a hybrid approach, in which product and market structures are combined in a form of matrix organization.

Centralization versus decentralization

We need to recognize that in the context of large, complex organizations it is not simply the creation of a single marketing department (along with its status and integrative

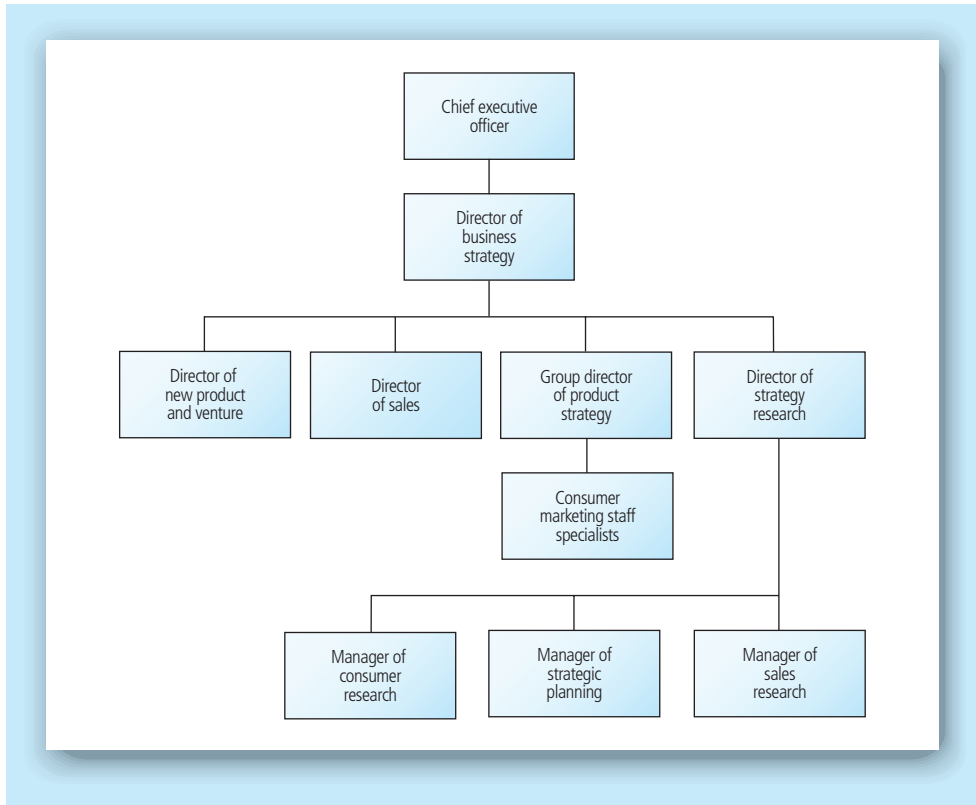


Figure 16.18 A strategic management organizational structure (adapted by Piercy (1985) from Haller (1980a, b))

characteristics) that is of concern, but rather the allocation of marketing responsibilities and activities among different levels in the organizational structure.

In the study that was cited in the introduction to Stage Four, Lynch et al. (1988) found that the better performing British companies exhibited the following organizational characteristics:

- ➔ More likely to have a marketing department
- ➔ More likely to have marketing represented directly at board level
- ➔ More likely to adopt a market-based organizational structure
- ➔ Work more closely with other functional areas.

The study of large organizations has consistently emphasized the process of divisionalization beyond the point at which a traditional organizational structure (i.e. of a functional form) becomes incapable of effectively coping with such issues as geographic expansion, volume growth, vertical integration and product diversification (e.g. Chandler, 1962).

Buell (1966) suggested a fourfold categorization of divisionalized marketing organization:

Form	Advantages	Disadvantages	Situational indicators
Functional	Specialization in task activities to develop skills. Marketing tasks and responsibilities clearly defined.	Excess levels of hierarchy may reduce unity of control. Direct lines of communication may be ignored. Conflicts may emerge. Integration problem for CME*.	Simple marketing operations. Single primary product/market.
Product/brand	Specialization in products/brands. More management attention to marketing requirements of different products/brands. Fast reaction to product-related change.	Dual reporting. Too much product emphasis. More management levels and cost. Conflict.	Wide product lines sold to homogeneous groups of customers, but sharing production/marketing systems, i.e. proliferation of brands and diversified products requiring different skills/activities.
Market/customer/geographical	Specialization in a market entity – focus on customer needs. Fast reaction to market-related changes.	Duplication of functions. Coordination problems. More management levels.	Limited, standardized homogeneous product line sold to customers in different industries, i.e. proliferation of markets each meriting separate efforts.
Product/market overlay	Advantages of functional product and market specialization and integration.	Allocation of responsibilities is difficult. Duplication inefficiencies.	Multiple products and multiple markets.

* Chief Marketing Executive

Figure 16.19 Comparison of marketing structures (source: Piercy, 1985)

- 1 *Divisionalized companies with self-sufficient divisions.* At the corporate level of marketing (if it exists) policy guidelines and advice are provided, and the marketing performance of divisions is evaluated, but no marketing services are provided.
- 2 *Divisionalized companies with corporate marketing services.* Divisions are responsible for production and selling, but central marketing services deal with advertising, marketing research, etc.
- 3 *Geographically divisionalized companies.* Divisions provide some marketing activities for their areas, but central marketing services are also provided, along with national/international coordination.
- 4 *Centralized manufacturing/decentralized marketing.* All manufacturing is centralized and marketing is undertaken through divisions.

There are benefits from both centralization and decentralization. For example, Heskett (1976) has identified the following.

Centralized control

- ➔ Facilitates the coordination of marketing
- ➔ Makes up for low management expertise in some areas
- ➔ Can lead to better control.
- ➔ Ensures the transfer of ideas among marketing groups
- ➔ Avoids duplication of effort.

Decentralization

- ➔ Encourages more effective local performance
- ➔ Improves management development opportunities
- ➔ Favours the development of marketing programmes that are more sensitive to local needs.

Deciding whether centralization is to be preferred to decentralization will depend on the specific circumstances of a given enterprise. For example, an enterprise having a complex and dynamic environment on the one hand and a variety of product groups on the other might be better suited to a decentralized structure. As Nonaka and Nicosia (1979) put it:

“A simple centralized organization of a marketing department is sufficient to process environmental information that is homogeneous and certain. But a complex, decentralized organization for a marketing department is required to process environmental information that is heterogeneous and uncertain . . . only organisms with high internal variety can cope with and survive high variety in the environment.”

See Figure 16.20.

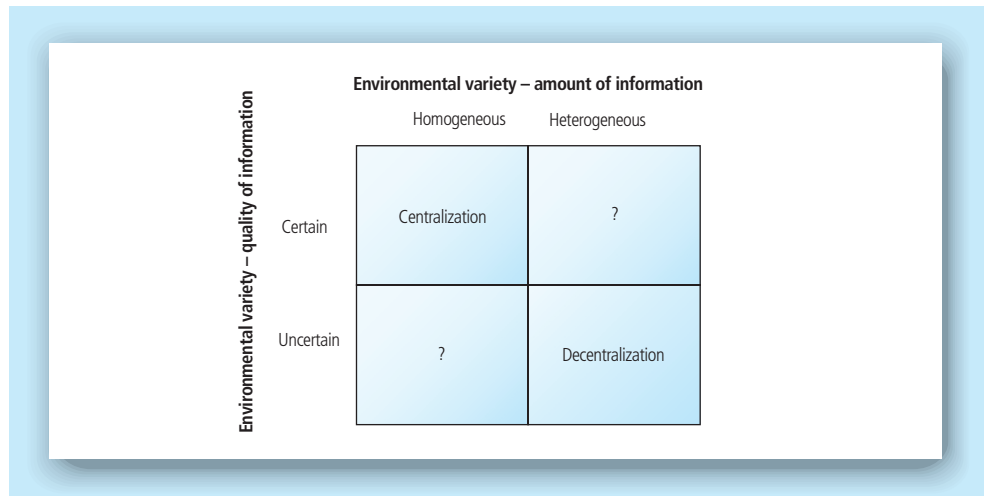


Figure 16.20 Environmental variety and marketing centralization (adapted from Nonaka and Nicosia, 1979)

Whether or not the marketing organization should be centralized is likely to be a function of uncertainty, which in turn reflects environmental turbulence. A centralized structure is able to cope with a relatively stable (hence predictable) environment, whereas a decentralized structure is more appropriate when the environment is unstable (hence more uncertain).

16.11 Summary

In this chapter we have reviewed an array of problems that need to be addressed if marketing plans are to be properly developed, adequately implemented and the outcomes effectively controlled. The origins of problems include:

- ➔ Pressures from a variety of sources (embracing consumer behaviour, economic conditions, technology, societal expectations, politics), all of which are associated with change and the imperative for enterprises to adapt to change if they are to be successful
- ➔ The marketing subsystem with its interdependencies
- ➔ The nature of marketing feedback
- ➔ The adequacy of information
- ➔ Cost issues and the analysis of marketing costs as a means of establishing the effectiveness – in financial terms – and efficiency of marketing activities
- ➔ The degree of marketing orientation that exists within the enterprise
- ➔ The resistance to planning that is still to be found.

Successful implementation and control will be facilitated by:

- ➔ A balance between short-run programme-related measures and longer-term performance criteria
- ➔ The attainment of synergy among the various elements of the marketing mix
- ➔ The use of appropriate criteria for assessing performance within segments
- ➔ The use of appropriate criteria for allocating resources to segments, coupled with flexibility in adaptive reallocations
- ➔ Executing product–market decisions in the broader context of business-level considerations relating to strategic marketing.

The need to balance strategy with a suitable structure was discussed in some detail. An emphasis was given to the principles of organizational design and the view (put forward most strongly by Piercy) of the marketing organization as an information-processing structure within an uncertain environment.

The control structure of an organization embraces the organization structure, responsibility centres, performance measures and the system of rewards. This structure

needs to be properly designed if resources are to be allocated effectively in decentralized decision-making.

There is a clear need for the control structure to be coordinated with the organization's planning system if desired behaviour is to be achieved. In assessing the adequacy of results it would be too limiting to rely solely on traditional measures such as costs, profits and profitability (e.g. return on investment), since these are partial on the one hand and emphasize a relatively short-term orientation on the other. It is better to relate short-term measures to strategic performance measures, including changes in market share, changes in growth and changes in competitive position.