CHAPTER 3

Marketing Auditing and the Analysis of Capability

3.1 LEARNING OBJECTIVES

When you have read this chapter you should understand:

(a) the nature, structure and purpose of the marketing audit;

(b) the nature of the contribution made by the marketing audit to the overall management audit;

(c) the need for a regular review of marketing effectiveness and how such a review might be conducted;

(d) why a regular review of strengths, weaknesses, opportunities and threats is necessary;

(e) how the marketing effectiveness review, SWOT and TOWS analysis and the marketing audit contribute to the marketing planning process.

3.2 INTRODUCTION

Although the process of marketing auditing is a fundamental underpinning for the marketing planning process, it is for many organizations still a relatively under-utilized activity. This is despite a substantial body of evidence that suggests that an organization's performance in the marketplace is directly influenced by the marketing planner's perception of three factors:

1. The organization's current market position
2. The nature of environmental opportunities and threats
3. The organization's ability to cope with environmental demands.

Given this, the marketing audit is designed to provide the strategist with a clear understanding of these three dimensions and, in this way, provide a firm foundation for the development of strategy, something that is reflected in a comment by McDonald (1995, p. 28):

> *Expressed in its simplest form, if the purpose of a corporate plan is to answer three central questions:*
>
> > *Where is the company now?*
> > *Where does the company want to go?*
> > *How should the company organize its resources to get there?*
>
> *then the audit is the means by which the first of these questions is answered. An audit is a systematic, critical and unbiased review and appraisal of the environment and of the company's operations. A marketing audit is part of the larger management audit and is concerned (specifically) with the* ***marketing environment and marketing operations****.*
>
> (emphasis in original)

What is a marketing audit?

The marketing audit is, in a number of ways, the true starting point for the strategic marketing planning process, since it is through the audit that the strategist arrives at a measure both of environmental opportunities and threats and of the organization's marketing capability. The thinking that underpins the concept of the audit is therefore straightforward: it is that corporate objectives and strategy can only be developed effectively against the background of a detailed and objective understanding of both corporate capability and environmental opportunity. The audit is, therefore, the process through which the marketing planner identifies and evaluates the organization's strengths and weaknesses against the background of the market and the opportunities and threats that exist. Having done this, the planner is then in a far stronger position to develop the strategy and decide upon a meaningful market position.

Definitions of the audit have also been proposed by a variety of authors, all of whom highlight the need for the audit to be a systematic, critical, and impartial review of the total marketing operation. In essence, therefore, the audit must embrace the marketing environment in which the organization – or the business unit – is operating, together with the objectives, strategies and activities being pursued. In doing this, the planner needs to take an objective view of the organization and its market and must not be affected by preconceived beliefs.

Given this, the three major elements and potential benefits of the marketing audit can be seen to be:

1. The detailed analysis and understanding of the external environment and internal situation

2. The objective review and evaluation of past performance and present activities

3. The clearer identification of future opportunities and threats.

These three elements can then usefully be viewed against the background of comments made by Ansoff (1968), who has suggested that, 'irrespective of the size of the organization, corporate decisions have to be made within the constraint of a limited total resource'. Recognizing this, the strategist is then faced with the task of producing 'a resource allocation pattern which will offer the best potential for meeting the firm's objectives'. The marketing audit can therefore be seen in terms of providing a sound basis for this process of resource allocation. In this way, any strategy that is then developed should be far more consistent both with the demands of the environment and with the organization's capabilities and strengths.

The rationale for the audit is therefore straightforward and, in a number of ways, can be seen to derive from the more commonly known and widely accepted idea of the financial audit which, together with audits of other functional areas, is part of the overall management audit. The nature of this relationship is illustrated in Figure 3.1.

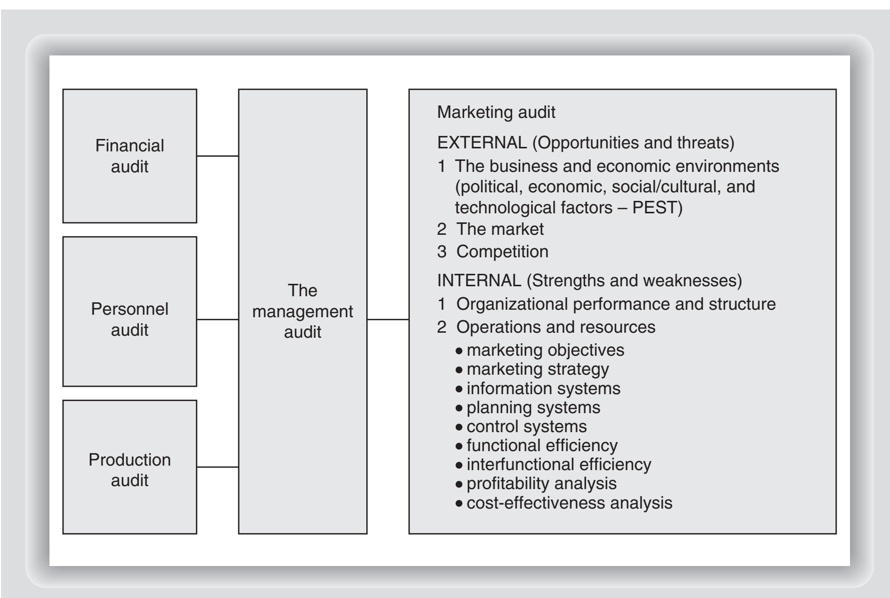

FIGURE 3.1 *The place of the marketing audit in the overall management audit*

The structure and focus of the audit

In terms of its structure, the marketing audit consists of three major and detailed diagnostic steps. These involve a review of:

1. The organization's environment, the ways in which it is likely to change and the probable impact of these changes upon the organization. It is this analysis that then provides the basis for a detailed understanding of the opportunities and threats that exist or are likely to emerge
2. Its marketing strategy, structures, systems, processes and culture, and the extent to which they are capable of dealing with the demands of the environment (in essence, this is the identification and analysis of the organization's strengths, weaknesses and capabilities)
3. Its marketing activities and, in particular, the components of the marketing mix and how well – or badly – they have been managed.

It should be apparent from this that the first of these is designed to establish the various dimensions of the marketing environment, the ways in which it is likely to change, and the probable impact of these changes upon the organization. The second stage is concerned with an assessment of the extent to which the organization's marketing systems are capable of dealing with the demands of the environment whilst the final stage involves a review of the individual components of the marketing mix.

It should be apparent from this that, in conducting an audit, the strategist is concerned with two types of variable. First, there are the *environmental* or *market variables*, over which the strategist has little or no direct control. Secondly, there are the *operational variables*, which can be controlled to a greater or lesser extent. This distinction can also be expressed in terms of the *macro-environmental forces* (political/legal, economic/demographic, social/cultural, and technological) that affect the business, and *micro-environmental actors* (customers, competitors, distributors and suppliers) who subsequently influence the organization's ability to operate profitably in the market place. Regardless of which approach to categorization is used, the process and purpose of the audit is the same. It begins with an *external audit* covering the macro-environmental forces referred to above and the markets and competitors that are of particular interest to the company.

The *internal audit* then builds upon this by assessing the extent to which the organization, its structure and resources relate to the environment and have the capability of operating effectively within the constraints that the environment imposes.

In doing this, the auditor should not view the marketing audit and its result in isolation but should instead, as we observed earlier, give full recognition to the way in which it sits within the general framework of the overall management audit and alongside the audits of the other management functions (refer back to Figure 3.1). In this way the strategist should arrive at an accurate measure not just of environmental opportunity but also of the ability of the organization as a whole to respond effectively.

With regard to the question of how frequently the audit should be conducted, this is typically influenced by several factors, the most important of which are the nature of the business, the rate of environmental change, and the planning cycle (annual, bi-annual). In so far as it is possible to provide a reasonably definitive guideline, it is that the organization should undertake a full audit at the beginning of each major planning cycle, supplemented by less intensive but more frequent reviews of specific or key areas as conditions change.

The stages of the audit

In conducting a marketing audit, a majority of commentators advocate a step-wise procedure. In this way, they argue, the approach ensures a degree of consistency that allows for a comparison from one period to another. For Grashof (1975), these steps are:

1. Pre-audit activities in which the auditor decides upon the precise breadth and focus of the audit
2. The assembly of information on the areas that affect the organization's marketing performance – these would typically include the industry, the market, the firm and each of the elements of the marketing mix
3. Information analysis
4. The formulation of recommendations
5. The development of an implementation programme.

Cannon's approach (1968, p. 102) is broadly similar, and again consists of five distinct stages: these are illustrated in Table 3.1.

Although for many organizations it is the assembly of information that proves to be the most time-consuming, it is (in terms of Grashof's suggested framework) Stages 3 and 5 that often prove to be the most problematic. In analysing information, the auditor therefore needs to consider three questions:

1. What is the *absolute* value of the information?
2. What is its *comparative* value?
3. What *interpretation* is to be placed upon it?

Table 3.1 Cannon's five stages of audit (Cannon, 1968)

Stage	Key elements
Step 1 Define the market	*Develop:* ■ Statement of purpose in terms of benefits ■ Product scope ■ Size, growth rate, maturity state, need for primary versus selective strategies ■ Requirements for success ■ Divergent definitions of the above by competitors ■ Definition to be used by the company
Step 2 Determine performance differentials	■ Evaluate industry performance and company differences ■ Determine differences in products, applications, geography and distribution channels ■ Determine differences by customer set
Step 3 Determine differences in competitive programmes	*Identify and evaluate individual companies for their:* ■ Market development strategies ■ Product development strategies ■ Financing and administrative strategies and support
Step 4 Profile the strategies of competitors	■ Profile each significant competitor and/or distinct type of competitive strategy ■ Compare own and competitive strategies
Step 5 Determine the strategic planning structure	*When size and complexity are adequate:* ■ Establish planning units or cells and designate prime and subordinate dimensions ■ Make organizational assignments to product managers, industry managers and others

It is generally acknowledged that, if these questions are answered satisfactorily, the recommendations will follow reasonably easily and logically. The only remaining problem is then the development of an effective implementation programme.

It should be apparent from the discussion so far that a marketing audit, if carried out properly, is a highly specific, detailed and potentially time-consuming activity. Because of this many organizations often do not bother with a full audit, and opt instead for a less detailed, more general and more frequent *review of marketing effectiveness*, coupled with an analysis of strengths, weaknesses, opportunities and threats.

In doing this, the typical starting point is a straightforward analysis or review of strengths and weaknesses that is designed simply to highlight the key issues internally and externally. An example of this appears in Figure 3.2.

Having done this initial analysis, the next step is to plot each of these elements into the sort of grid that appears in Figure 3.3, with each feature being linked to the customer's perception of their significance.

At the same time that this is being done, the initial external analysis designed to identify opportunities and threats can be conducted, with the

Strengths	Weaknesses
• Product quality and reliability • Product performance • High levels of after-sales service • Brand reputation • Low maintenance costs	• Limited product range • Higher prices than the direct competitors • High after-sales prices

FIGURE 3.2 *The initial analysis of strengths and weaknesses*

	Low → Significance to the customer		High
Strengths +10 0	• Low maintenance costs	• After-sales service levels • Brand reputation	• Product quality and reliability • Product performance
Weaknesses −10	• Limited product range	• Prices • After-sales costs	

FIGURE 3.3 *Customer perceptions of the significance of the strengths and weaknesses Significance to the customer*

results then being brought together in the form of a provisional situational analysis. However, in conducting the external audit, the planner needs to make sure that the analysis does not simply lead to a list of opportunities and threats, but that the issues are plotted on to the sort of matrix shown in Figure 3.4.

		Low →		High
Significance to the organization	High	Develop a scenario plan	Think about possible contingency plans	Analyse and plan in detail
	↑	Review periodically	Monitor on an ongoing but general basis	Monitor closely and plan
	Low	Monitor in very general terms	Review periodically	Monitor and review

FIGURE 3.4 *Probability of occurrence*

Having done this, the results can be used as the basis for the next stage, that of the identification of the product/market opportunities (refer to pages 327–30 and to the Ansoff matrix) and to the identification and evaluation of the strategic alternatives open to the organization. Having identified these, they can then be given an initial attractiveness rating by identifying the contribution that each is capable of making to the filling of the planning gap (refer to pages 330–1).

3.3 REVIEWING MARKETING EFFECTIVENESS

Marketing effectiveness is to a very large extent determined by the extent to which the organization reflects the five major attributes of a marketing orientation, namely:

1. A customer-oriented philosophy
2. An integrated marketing organization
3. Adequate marketing information
4. A strategic orientation
5. Operational efficiency.

Each of these dimensions can be measured easily by means of a checklist, and an overall rating then arrived at for the organization. It needs to be recognized, however, that an organization's marketing effectiveness is not always reflected in current levels of performance. It is quite possible, for example, for an organization to be performing well simply by force of circumstances rather than because of good management – in other words, good performance may be due to being in the right place at the right time as opposed to anything more fundamental. A change in strategy as the result of an effectiveness review might well have the result of improving performance from good to excellent. Equally, an organization may be performing badly despite seemingly excellent marketing planning. Again, the explanation may well be environmental rather than poor management. Recognizing this, the purpose of going through the process of a marketing effectiveness rating review is to identify those areas in which scope exists for marketing improvement. Action, in the form of revised plans, can then be taken to achieve this.

With regard to the process of arriving at a measure of marketing effectiveness, the procedure is straightforward and involves managers from a number of departments (not just marketing) scoring the organization's performance on each of the five dimensions referred to above. Scores are then summarized in order to arrive at an overall perception of marketing effectiveness. In practice, and as might be expected, few companies achieve a score in the highest range; among the few to have done this are organizations such as IKEA, W.L. Gore, Amazon.com and a small number of the airlines, such as Emirates, Cathay Pacific and Singapore Airlines. The majority of companies, however, cluster around the fair-to-good range, suggesting that scope exists for improvement in one or more of the five areas.

Having conducted a review of marketing effectiveness, the marketing planner may decide that the results provide sufficient insight into the organization's capabilities. There is, however, a strong argument for viewing the marketing effectiveness rating review simply as the jumping-off point for a more detailed analysis of strengths, weaknesses, opportunities and threats.

3.4 THE ROLE OF SWOT ANALYSIS

Although SWOT analysis is one of the best-known and most frequently used tools within the marketing planning process, the quality of the outputs often suffer because of the relatively superficial manner in which it is conducted. There are several ways in which SWOT analyses can be made more rigorous – and therefore more strategically useful – and this is something to which we will return at a later stage in this chapter. However, before we turn to the detail of the SWOT, it is perhaps worth summarizing the key elements of the four dimensions. These are illustrated in Figure 3.5.

Identifying opportunities and threats

Opportunities multiply as they are seized (Sun Tzu, circa 500 BC)

Faced with a constantly changing environment, managers need to develop a marketing information system (MkIS) that is capable of tracking trends and developments within the market place. Each trend or development can then be categorized as an opportunity or a threat, and an assessment made of the feasibility and action needed if the organization is either to capitalize upon the opportunity or minimize the impact of the threat.

However, in examining opportunities and threats the reader needs to recognize that these can never be viewed as 'absolutes'. What might appear at first sight to be an opportunity may not be so when examined against the organization's resources, its culture, the expectations of its stakeholders, the strategies available, or the feasibility of implementing the strategy. Instead, it might simply be a change within the market that is of little real or immediate consequence. At the risk of oversimplification, however, the purpose of strategy formulation is to develop a strategy that will take advantage of the opportunities and overcome or circumvent the threats.

For our purposes, an opportunity can be seen as any sector of the market in which the company would enjoy a competitive advantage. These opportunities can then be assessed according to their attractiveness and the organization's probability of success in this area, as illustrated in Figure 3.6.

STRENGTHS: Areas of (distinctive) competence that:

- Must always be looked at relative to the competition
- If managed properly, are the basis for competitive advantage
- Derive from the marketing asset base

WEAKNESSES: Areas of relative disadvantage that:

- Indicate priorities for marketing improvement
- Highlight the areas and strategies that the planner should avoid

OPPORTUNITIES: Environmental trends with positive outcomes that offer scope for higher levels of performance if pursued effectively:

- Highlight new areas for competitive advantage

THREATS: Trends within the environment with potentially negative impacts that:

- Increase the risks of a strategy
- Hinder the implementation of strategy
- Increase the resources required
- Reduce performance expectations

FIGURE 3.5 *SWOT: A summary*

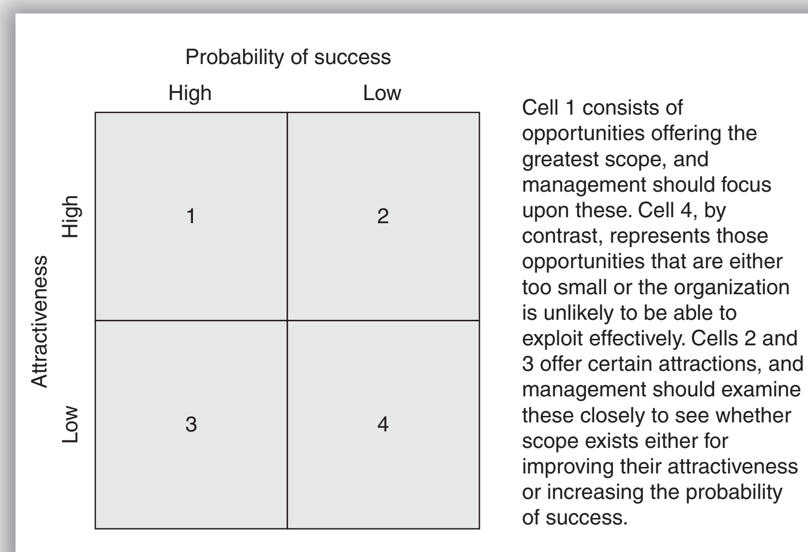

FIGURE 3.6 *The opportunity matrix*

The probability of success is influenced by several factors, but most obviously by the extent to which the organization's strengths, and in particular its distinctive competences, match the key success requirements for operating effectively in the target market *and* exceed those of its competitors.

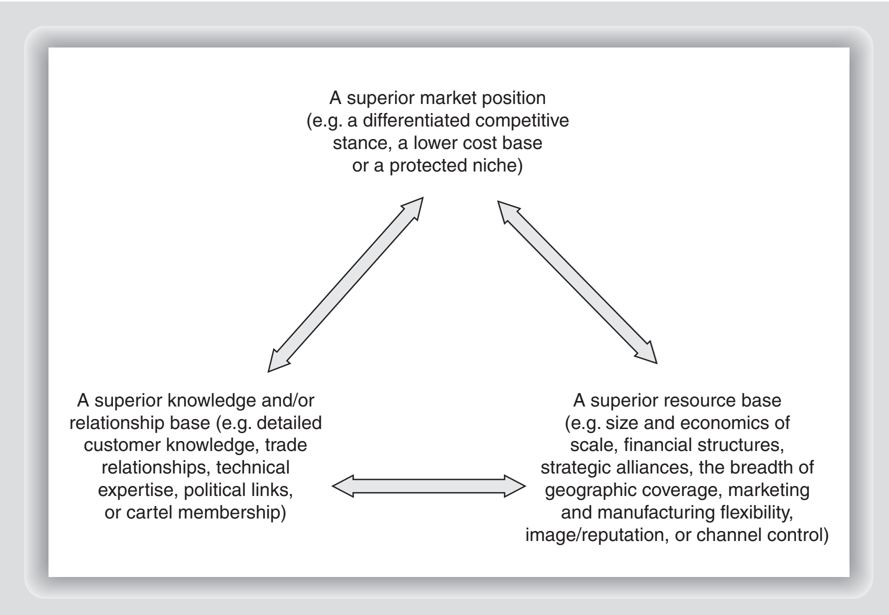

FIGURE 3.7 *Sources of competitive advantage (adapted from McDonald, 1990)*

However, competence by itself is rarely sufficient in anything more than the short term since, given time, competitive forces will erode this competence. Because of this the strategist needs to concentrate upon developing competitive advantages that are sustainable over time. The bases of a sustainable competitive advantage are illustrated in Figure 3.7 and are discussed in greater detail in Chapter 11.

However, at the same time as generating opportunities, the external environment also presents a series of threats (a threat being a challenge posed by an unfavourable trend or development in the environment which, in the absence of a distinct organizational response, will lead to the erosion of the company's market position).

Threats can be classified on the basis of their seriousness and the probability of their occurrence. An example of how this can be done is illustrated in Figure 3.8.

Given the nature of these comments, it can be seen that, by putting together a picture of the major opportunities and threats facing the business, the marketing planner is attempting to arrive at a measure of the market's overall attractiveness. In essence, four possibilities exist:

1. An *ideal* business, which is characterized by numerous opportunities but few (if any) threats
2. A *speculative* business, which is high both in opportunities and in threats

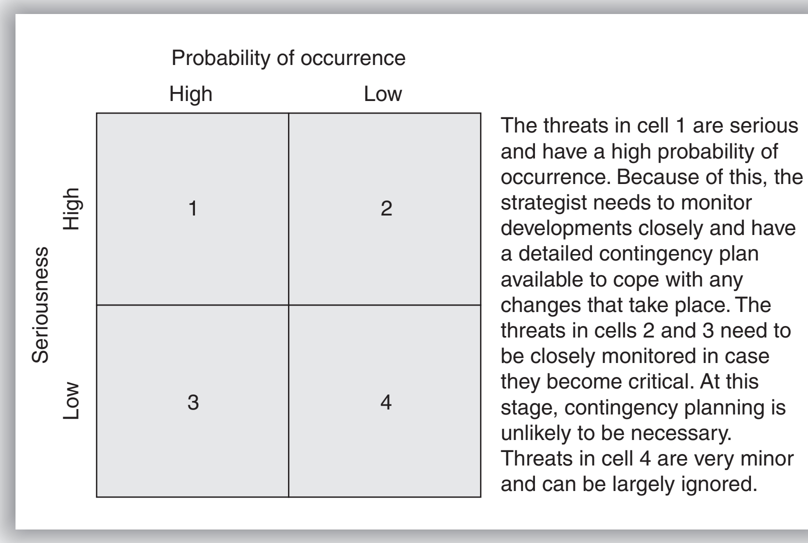

FIGURE 3.8 *The threats matrix*

3. A *mature* business, which is low both in opportunities and threats
4. A *troubled* business, which is low in opportunities but high in threats.

Identifying and evaluating strengths and weaknesses

Although in many markets it is often a relatively simple process to identify a whole series of environmental opportunities, few organizations have the ability or the competences needed to capitalize upon more than a small number of these. Each business therefore needs to evaluate its strengths and weaknesses on a regular basis. This can be done by means of the sort of checklist illustrated in Figure 3.9.

Each factor is rated by management or an outside consultant according to whether it is a fundamental strength, a marginal strength, a neutral factor, a marginal weakness, or a fundamental weakness. By linking these ratings, a general picture of the organization's principal strengths and weaknesses emerges. Of course, not all of these factors are of equal importance either in an absolute sense or when it comes to succeeding with a specific business opportunity. Because of this, each factor should also be given a rating (high, medium or low) either for the business as a whole or for a particular marketing opportunity. Combining performance and importance levels in this way injects a greater sense of perspective to the analysis, and

	Performance					Importance		
Strengths	Fundamental strength	Marginal strength	Neutral	Marginal weakness	Fundamental weakness	High	Medium	Low
Marketing factors								
1 Relative market share								
2 Reputation								
3 Previous performance								
4 Competitive stance								
5 Customer base								
6 Customer loyalty								
7 Breadth of product range								
8 Depth of product range								
9 Product quality								
10 Programme of product modification								
11 New product programme								
12 Distribution costs								
13 Dealer network								
14 Dealer loyalty								
15 Geographical coverage								
16 Sales force								
17 After sales service								
18 Manufacturing costs								
19 Manufacturing flexibility								
20 Raw material advantage								
21 Pricing								
22 Advertising								
23 Unique selling propositions								
24 Structure of competition								
Financial factors								
25 Cost of capital								
26 Availability of capital								
27 Profitability								
28 Financial stability								
29 Margins								
Manufacturing factors								
30 Production facilities								
31 Economies of scale								
32 Flexibility								
33 Workforce								
34 Technical skill								
35 Delivery capabilities								
36 Supplier sourcing flexibility								
Organizational factors								
37 Culture								
38 Leadership								
39 Managerial capabilities								
40 Workforce								
41 Flexibility								
42 Adaptability								

FIGURE 3.9 *Strengths and weaknesses analysis (adapted from Kotler, 1988)*

leads to four possibilities emerging. These are illustrated in Figure 3.10 in the form of a performance–importance matrix.

In Figure 3.10 Cell 1 consists of those factors that are important but in which the organization is currently performing badly. Because of this the organization needs to concentrate on strengthening these factors. Cell 3

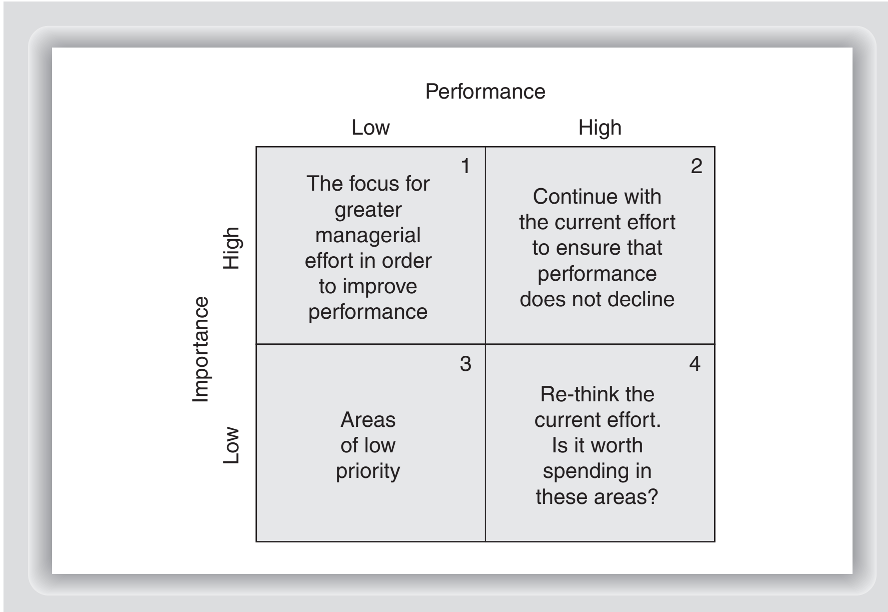

FIGURE 3.10 *The perfomance–importance matrix*

consists of unimportant factors. Cell 2 is made up of factors in which the business is already strong but in which it needs to maintain its strengths. Improvements here, while often desirable, have low priority. Cell 4 is made up of unimportant factors in which (possibly as the result of over-investment in the past) the business is unnecessarily strong.

Another way of looking at issues of performance and importance involves focusing specifically upon the organization's performance relative to the competition. The framework for this is illustrated in Figure 3.11.

On the basis of this sort of analysis it should be apparent that, even when a business has a major strength in a particular area, this strength does not invariably translate into a competitive advantage. There are several possible explanations for this, the two most prominent of which are that it may not be a competence that is of any real importance to customers, or that it is an area in which competitors are at least equally strong. It follows from this that, in order to benefit from the strength, it *must* be relatively greater than that of the competitor.

Having identified the organization's weaknesses, the strategist needs to return to the analysis of these (see Figure 3.9) and consider again their relative importance. There is often little to be gained from overcoming all of the organization's weaknesses, since some will be unimportant and the amount of effort needed to convert them to a strength would quite simply not be repaid. Equally, some strengths are of little real strategic value, and to use them in anything other than a peripheral way is likely to prove of

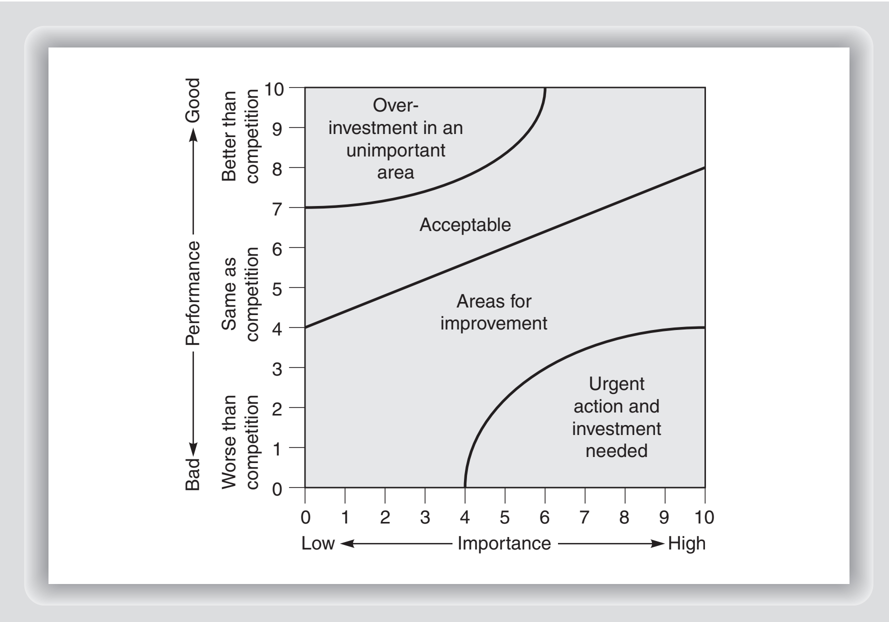

FIGURE 3.11 *Performance–importance and the competition (adapted from Slack* et al.*, 1998)*

little real value. Recognizing this, the marketing planner should focus upon those areas of opportunity in which the firm currently has major strengths or where, because of the size of the opportunity and the potential returns, it is likely to prove cost-effective in acquiring or developing new areas of strength.

On occasions, organizations suffer not because of a lack of individual, departmental or divisional strengths, but quite simply because the various departments or divisions do not work together sufficiently well. As part of the SWOT process the strategist therefore should also pay attention to the quality of interdepartmental and divisional relationships with a view to identifying any dysfunctional areas. One of the ways in which this can be done is by conducting a periodic survey in which each department is asked to identify the strengths and weaknesses both of itself and of each other department with which it interacts. Action can then be taken to overcome areas of conflict, misunderstanding and inefficiency. An example of the results of an attempt to identify interdepartmental strengths and weaknesses appears in Figure 3.12. These are based on a consultancy project conducted by one of the authors several years ago. The client company operated in the engineering field, and was a subsidiary of a far larger multinational organization. The company had a strong financial orientation and was rapidly being overtaken by its competitors: for obvious reasons, the client's name has been omitted.

	Strengths	Weaknesses
Marketing	Market development Advertising Dealer development Competitor analysis	Long-term planning Liaising with sales Liaising with production Profitable new product development Identifying small but potentially profitable gaps in the market Expectations regarding quality and manufacturing capability Pricing Relations with corporate management
Sales	None identified	Expectations regarding delivery times Providing market feedback Often sell what can only be made with difficulty Little apparent awareness of costs Ignores small orders Patchy productivity Levels of training Sales staff turnover
Production	Quality	Slow to change Unwilling to cooperate with marketing and sales Often late in delivering Tend to want to make what they are good at A lack of flexibility caused by a strong trade-union presence Rising costs Lack of strong management Ageing plant Inadequate training in CAD/CAM
Personnel	Junior management and shop-floor training	Representation at board level Long-term senior management development Poor negotiating skills Willingness to give in to trade-union pressure Lack of real personnel management skills
Finance	Tight cost control Credit control Relationship with corporate management Access to significant financial resources	Over-emphasis on short-term returns Lack of vision Unwilling to cooperate with marketing and sales Unwilling to provide finance for major programmes of new product development Unrealistic reporting demands

FIGURE 3.12 *Identifying interdepartmental strengths and weaknesses*

Issues of capability

Although the analysis of strengths and weaknesses is a valuable step in the auditing process, the reader needs to recognize that strengths and weaknesses by themselves are of little real planning value. Instead, they should be seen as a step towards the planner coming to terms with the broader issue of capability. In doing this, the planner is giving recognition to the way in which the value of any strategy or plan is ultimately determined not by strengths and weaknesses, but by the organization's capability and the extent to which it is able to outperform its competitors.

Although capability has been defined in several ways, it is, in essence, the ability of the management team to get things done. In arriving at a measure of capability, the marketing strategist needs to come to terms with seven principal areas:

1. *Managerial capability*. This includes not just the abilities of individuals, but also – and perhaps more importantly – that of the team.
2. The *managerial culture* and the organizational DNA (for a discussion of organizational DNA, refer back to Illustration 2.2).
3. *Financial capability*. This is determined in part by the availability of funds, but also by the expectations of how they are used, the extent to which the management team is willing to take risks when investing, and the returns that are expected.
4. *Operational capability*. This involves the levels of day-to-day efficiency and effectiveness.
5. *Distribution capability*. This is determined by a combination of geographic reach or coverage, penetration (the proportion of possible outlets), and the quality of these distributors.
6. *Human resource capability*. This is a reflection of the nature and experience of staff throughout the business.
7. *Intangible factors* (such as the brand). In the case of a powerful brand, capability is extended enormously because it provides the opportunity not just for brand stretching, but also for pricing at a premium, gaining access to the strongest forms of distribution and increasing levels of customer loyalty.

At the same time, however, the planner also needs to understand the factors that inhibit capability. Typical examples of this include attitudes to risk and an adherence to a well-developed business model.

Making SWOT analyses more effective

Although SWOT analysis is a potentially useful input to the strategic marketing planning process, in practice it often suffers from a number of weaknesses. Amongst the most common of these are that:

- The planner fails to relate strengths and weaknesses to critical success factors
- Strengths and weaknesses are seen in absolute terms rather than in relation to the competition
- The elements of the analysis are insufficiently specific

- Competitors' capabilities are underestimated and/or misunderstood
- The focus is upon marketing specific issues rather than reflecting a broader company perspective
- Emphasis is placed largely upon the 'hard' or quantifiable elements, and fails to take account of managerial attitudes, cultures, capabilities and competencies.

The implications of this have been highlighted by numerous writers (e.g. Weihrich, 1982; Piercy, 1991; Doyle, 2002; Johnson *et al.*, 2008; McDonald, 2007) all of whom have also argued that, as a result, its full potential is rarely realized.

In suggesting this, Piercy claims that 'the use of this tool has generally become sloppy and unfocused – a classic example perhaps of familiarity breeding contempt'. There are, he believes, several factors that have contributed to this, the most obvious of which are that:

(a) because the technique is so simple it is readily accessible to all types of manager;
(b) the model can be used without a need for extensive information systems;
(c) it provides planners with a structure that allows for a mixture of the qualitative and quantitative information, of familiar and unfamiliar facts, of known and half-known understandings that characterize strategic marketing planning.

In order to make better use of the SWOT framework, Piercy proposes five guidelines:

1. *Focus the SWOT* upon a particular issue or element, such as a specific product market, a customer segment, a competitor, or the individual elements of the marketing mix.
2. Use the SWOT analysis as a mechanism for developing a *shared vision* for planning. This can be done by pooling ideas from a number of sources and achieving a team consensus about the future and the important issues.
3. *Develop a customer orientation* by recognizing that strengths and weaknesses are largely irrelevant unless they are recognized and valued by the customer. One of the ways in which this can be done is by applying the McDonald's 'so what?' test, in which the planner looks at each of the claimed benefits from the viewpoint of the consumer and, by asking 'well, so what?', tries to assess its *true* significance (see pages 429–30). By doing this, the planner is also likely to move away from the trap of making a series of so-called *motherhood statements* (a motherhood statement is warm,

reassuring and difficult to argue against). As an example of the most common of motherhood statements to emerge in analyses of strengths is the suggestion that 'we are committed to the customer'. The reality, Piercy argues, is often far removed from this.

4. In the same way that strengths and weaknesses must always be viewed from the viewpoint of the customer, so the analysis of opportunities and threats must relate to *the environment that is relevant to the organization's point of focus*. Anything else simply leads to a generalized – and largely pointless – set of comments.

5. The final guideline is concerned with what Piercy refers to as *structured strategy generation*. This involves:
   - *Matching strategies* – strengths *must* be matched to opportunities, since a strength without a corresponding opportunity is of little strategic value.
   - *Conversion strategies* – while often difficult, these are designed to change weaknesses into strengths and threats into opportunities. As an example of this, competitors may well be growing and proving to be an increasing threat. However, by recognizing that a head-on battle is likely to prove expensive and counterproductive, the emphasis might shift to developing strategic alliances that then provide both organizations with a greater combined strength – which in turn allows them to capitalize upon growing opportunities.
   - *Creative strategies* for developing the business – these emerge as the result of a detailed analytical process rather than the vague and unfocused lines of thought to which we referred earlier.
   - *Iteration* – as the planner goes through the process of identifying hidden strengths, matching strengths to opportunities, converting weaknesses to strengths, and so on, there is a periodic need to go back to the beginning of the process in order to identify how the situation that is emerging changes the SWOT model and any initial assumptions.

SWOT analysis can also be made more effective by thinking:

- To what extent has the relative importance of the various elements been identified?
- To what extent have the implications of each of the elements been examined?
- To what extent does the management team *really* recognize the significance of the elements?
- To what extent have attempts been made in the past to manage the SWOT analysis outcomes proactively?

SWOT to TOWS

The limitations that Piercy suggests typically characterize SWOT analyses have also been highlighted by Weihrich (1982). His principal criticism of SWOT is that, having conducted the analysis, managers frequently then fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this he argues for the TOWS matrix which, while making use of the same inputs (threats, opportunities, weaknesses and strengths), reorganizes them and integrates them more fully into the strategic planning process. To do this involves the seven steps illustrated in Figure 3.13. The TOWS matrix is then illustrated in Figure 3.14.

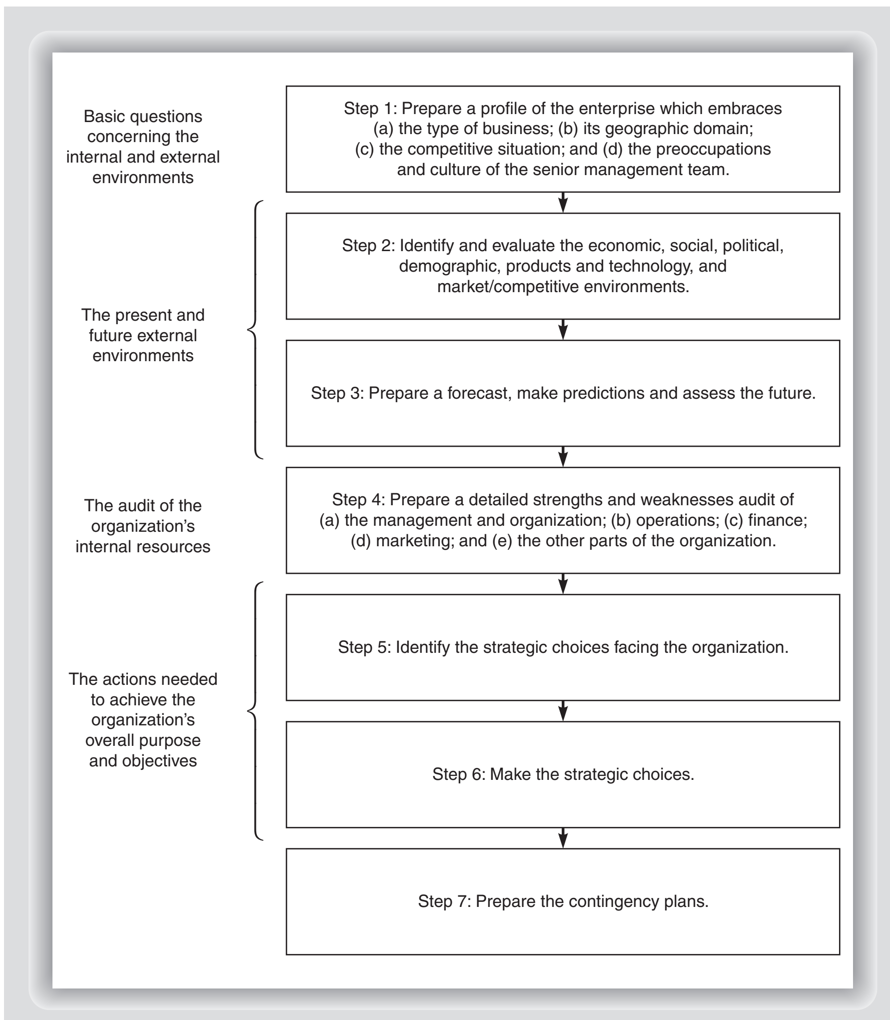

FIGURE 3.13 *The TOWS framework*

Internal elements / External elements	Organizational strengths	Organizational weaknesses
	Strategic options	
Environmental opportunities (and risks)	**S-O:** Strengths can be used to capitalize or build upon existing or emerging opportunities	**W-O:** The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	**S-T:** Strengths in the organization can be used to minimize existing or emerging threats	**W-T:** The strategies pursued must minimize or overcome weaknesses and, as far as possible, cope with threats

FIGURE 3.14 *The TOWS matrix (adapted from Weihrich, 1982)*

Very obviously, the matrix outlined in Figure 3.14 relates to a particular point in time and there is therefore a need to review the various inputs on a regular ongoing basis in order to identify how they are changing and the nature of the implications of these changes. It is also often useful if, when planning and having made particular assumptions, the planner then produces TOWS matrices for, say, three and five years ahead, with a view to identifying how the strategic options and priorities may change. In this way there is a greater likelihood that the planning team will come to terms with what the future really demands.

Figure 3.15 illustrates how Mercedes–Benz used the TOWS matrix in its cars division.

But are SWOT and TOWS analyses of any real value?

Although TOWS analysis can be seen to add another dimension to the traditional thinking about strengths, weaknesses, opportunities and threats, a fundamental question can be raised about just how useful this sort of analysis is within today's markets. In commenting on this, Walton (1999) argues that its value is limited, suggesting that 'compared with the steady state of the 1960s and 1970s, today's markets are characterized by an exponential increase in the rate of change, brought about by a combination of social, technological, legislative and other forces'. The implications of this are then reflected by the way in which 'as more organizations change from portrait

Strategies Tactics Actions	**Internal strengths** 1 Cash position 2 Luxury car image 3 New car models 4 Location dose to suppliers 5 Engineering and technology	**Internal weaknesses** 1 High costs 2 Venturing into unrelated businesses 3 Organizational diversity 4 Reliance on past successes and bureaucracy 5 Long cycle for new model development 6 Relatively weak position in Japan
External opportunities 1 Demand for luxury cars 2 Eastern Europe, especially East Germany 3 Prosperity through EC 1992 4 Electronics technology	**S-O strategy** 1 Develop new models (using high-tech) and charge premium prices 2 Use financial resources to acquire other companies or increased production capacity	**W-O strategy** 1 Reduce costs through automation and flexible manufacturing 2 Manufacture parts in Eastern Europe 3 Reorganizations 4 Daimler-Benz management holding companies
External threats 1 Decrease in defence needs because of easing of East–West tensions 2 BMW, Volvo, Jaguar, Lexus, Infinity in Europe 3 BMW in Japan 4 Diesel emissions 5 Renault/Volvo cooperation 6 Political instability in South Africa	**S-T strategy** 1 Transform defence sector to consumer sector 2 Develop new models to compete especially in Europe	**W-T strategy** 1 Retrench in South Africa 2 Form strategic alliance with Mitsubishi to penetrate the Japanese market

FIGURE 3.15 *TOWS analysis for Mercedes–Benz car division 1990 (source: Weihrich, 1993)*

to landscape structures, the mayhem of the operational day-to-day activity often gets in the way – not only of a true understanding of the nature and pattern of competition, but also of the more added-value appreciation of the implications for business strategy'.

Amongst the sorts of factors that have contributed to this planning mayhem are mega-brands, mega-retailers (including category busters such as Toys 'R' Us and Wal-Mart) and the sort of technological convergence that we have seen in the software, consumer electronics and telecommunications markets. For Walton (1999, p. 35), convergence has the effect of making competitive appraisal more difficult, and can be the consequence of:

> *industry boundaries blurring and turf disputes opening up between new competitors.*
>
> *Consider how the last decade has seen supermarkets move successfully into petrol, and petrol stations increasingly move*

into food. And how new markets attract players from all quarters. For example, the direct marketing industry has attracted creative agencies, computer software houses, fulfilment businesses and door-to-door distribution companies, each bringing different competencies and skill sets to the market opportunity.

Technological convergence can produce even more thrills and spills for marketers. The last two years have shown how digital technology has brought what we have traditionally known as the photographic, video and audio markets all closer together, with significant implications. For instance, for the consumer, who has the brand authority in digital cameras? A film brand like Kodak, a camera brand like Olympus, a video brand like JVC or an imaging brand like Canon?

Given this, and what might be seen to be the Pavlovian tendency in mature and highly competitive markets for firms to converge (discussed in Chapter 11 (pages 441–2) in terms of the phenomenon of strategic herding), the implications for competition – and therefore for market and competitive analysis – are significant. As organizations merge, the industry *status quo* changes dramatically and the idea of the traditional enemy being outside the gates begins to disappear and is replaced by higher levels of internal competition. This internal competition is often geographic in its nature and, for organizations operating across the EU, is typically made more difficult by the degree of cultural diversity that exists – something that Walton suggests has 'created a kind of tragi-comic *Jeux Sans Frontières* assault course which can lead to "euro-mush" marketing resulting from conflicting harmonization demands'.

At the same time, with brand strategies now performing a far more pivotal role within marketing and a greater number of management teams beginning to copy what might loosely be termed the Virgin model of brand architecture that is characterized by a far greater degree of mobility across category boundaries, marketing planners need to adopt a far broader perspective of competition. The 'Maginot-line' approach to SWOT analysis that many planners have pursued in the past tends to be based on a functional rather than a brand view of competition, and is likely to miss potential new market entrants. The likelihood of this has in turn been compounded by the way in which, because consumers today are far more familiar with brands and open to new patterns of brand thinking, the scope for moving into and out of markets has increased dramatically.

Given the nature of these changes, the implications for SWOT analysis are potentially significant and provide the basis for a number of modifications to the traditional approach (see Figure 3.16).

The rise of asset- and competency-based thinking

Although TOWS analysis undoubtedly represents an improvement upon the rather more mechanistic examination of strengths, weaknesses, opportunities

1. Consider the degree and implications of change to be anticipated in a market – high/medium/low. Is there one major factor you can identify as a window of opportunity or that could be used against you by a competitor as a killer threat? What is on the radar? And who is looking?
2. Within a market or category, what slots are already owned, being actively pursued and/or contested, and by whom?
3. What is the current phase of industry concentration? As we shift from 'middle game' to 'end game', what are the end game options? Does the industry leader have a future direction? What is our best long-term winning strategy or exit?
4. What industries and technologies are converging with our market? Can we zoom out and see proximate industries? For whom is our market an 'appetizing lunch'? Can the consumer-value equation be met in a new and radical way?
5. What brand franchises are relevant to a category and can travel quickly and easily from, to and into it? What consumer-relevant brand properties are available to existing and potential market entrants? How robust is our brand architecture against the market and against the competition? Have we got some big guns?
6. How strong is the enemy within? What do we do about the 5th Column?
7. What is the 'diplomatic status' of the market place? What is the network of alliances? What extra problems and opportunities does this present? Who is tied up?
8. Who currently sets the industry agenda? How strongly is it controlled? How easy will it be to change the industry agenda?
9. Do the industry bandwagons have a role for us? Benchmark with caution!
10. Above all, can you identify a major disruption or a transformational initiative?

FIGURE 3.16 *A checklist for the 'post-modern SWOT' (adapted from Walton, 1999)*

and threats that underpins many marketing plans, Davidson (2007, pp. 34–5) has argued for an alternative way of diagnosing an organization's current position and a way forward. His method of asset- and competency-based marketing (ACM) reflects the idea that any business consists only of *assets* (these are the 'things' that the organization owns and typically include brands, property, databases, supply chains and cash) and *competences* (these are the skills created by staff both individually and in groups, and might include brand development, database management, cost management and trade marketing). The challenge for the marketing planner is therefore one of how best to recognize the organization's real assets and then, through the competences, how best to exploit them.

He argues that for each asset it is essential that there is a corresponding competency. Without this, it is unlikely that the asset will be exploited. For an asset such as a brand, the competency needed is brand management; for databases it is database management and customer service. The issue for the planner is therefore initially that of the recognition of the organization's asset and then, against the background of a detailed understanding of market needs and opportunities, how these can best be leveraged and exploited.

For Davidson, the advantage of ACM is that it 'divides the "strengths" into two key and separate elements – assets and competences – and stresses the process of matching these both with each other, and with future opportunities'. He goes on to say that:

> *Many successful marketers do this instinctively, but due to lack of a systematic processes even they can miss big opportunities. Using ACM those opportunities which are best for a particular company can be revealed systematically. The company can exploit them better than others by capitalizing on its assets, and matching them to its distinctive competences. The result is long-term competitive advantages that are exploitable and sustainable.*

The application of ACM revolves around a six-step process that involves:

1. *Identifying the organization's exploitable assets and competences*. To do this, the planner begins by listing all of the company's brand assets and competences and then focuses upon those that offer scope for competitive advantage and superior customer value. For Disney, the competency is customer service; for Nike it is brand positioning; for P&G global brand development; and for Marks & Spencer it is the management of their suppliers.
2. *Reviewing the extent to which these assets and competences are being exploited currently*. In doing this, Davidson highlights a series of action points that include:
   - Reprioritizing markets, channels, customers or brands, to generate the better utilization of assets
   - Redeploying assets by buying, selling, developing and milking brands or physical assets
   - Identifying the new competences that are needed to exploit assets.
3. *Identifying the future shape of the industry and market*. By doing this, the planner can see more clearly how a market is likely to change and the sorts of assets and competences that will be needed for the organization to compete effectively in the future.
4. *Deciding how the organization's assets need to change over the next five years*. As part of this, the planner needs to focus upon the prospects of current markets, brands and other assets with a view to identifying whether they will deliver the sorts of returns that the organization demands.
5. *Building and exploiting assets and competences*.
6. *Matching assets and competences with future opportunities*.

Market attractiveness \ Assets and competencies	Weak	Medium	Strong
Low	Exit	Milk profits, refocus the strategy or exit the market	Leverage short-term profits, and then exit or transform the market
Medium	Exit or acquire competencies	Rethink the focus and strategy	Invest heavily to leverage advantage and deliver greater customer value
High	Acquire competencies by internal investment or acquisition	Invest in order to strengthen the competencies base	Invest to leverage advantage and deliver greater customer value

FIGURE 3.17 *The asset- and competency-based marketing framework for market prioritization (adapted from Davidson, 2007)*

The outputs from ACM thinking should, Davidson argues, more easily enable the marketing planner to:

- Move assets into areas of higher return
- Fully exploit all assets and competences
- Ensure assets and competences are well matched with opportunities
- Identify new competences that must be developed in the future
- Spread the marketing mindset by embracing efficient delivery of superior customer value throughout the company.

These ideas are summarized in Figure 3.17.

3.5 COMPETITIVE ADVANTAGE AND THE VALUE CHAIN

Having analysed the strengths and resources of the organization, the marketing planner then needs to think about the ways in which these resources can best be used to contribute to the organization's performance. In other words, how might these resources best be used as a means of gaining and

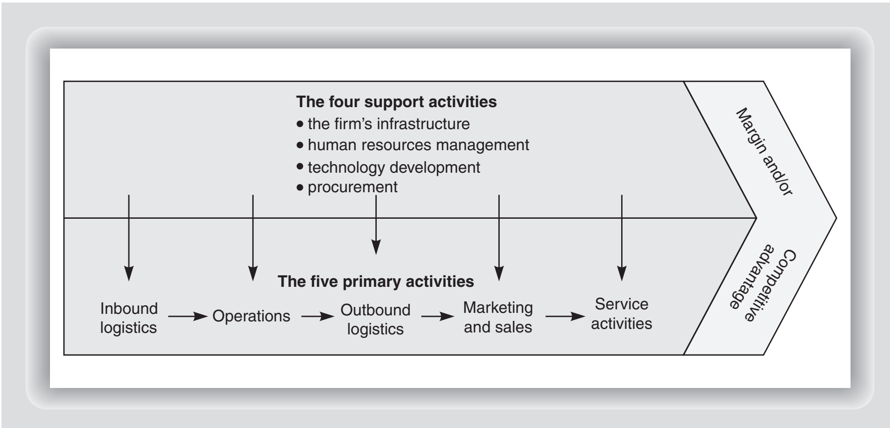

FIGURE 3.18 *The value chain (adapted from Porter, 1985a)*

maintaining a competitive advantage? One of the ways in which this can be done is by means of the *value chain* and a detailed understanding of competitive advantage (in this chapter we highlight some of the issues associated with competitive advantage, but a far fuller and more detailed analysis is provided in Chapter 11).

Although value analysis has its origins in accounting and was designed to identify the profit of each stage in a manufacturing process, a considerable amount of work has been done in recent years in developing the concept and applying it to measures of competitive advantage. Much of this work has been conducted by Michael Porter, who suggests that an organization's activities can be categorized in terms of whether they are *primary activities* or *support activities* (see Figure 3.18).

The five primary activities identified by Porter are:

1. *Inbound logistics*, which are the activities that are concerned with the reception, storing and internal distribution of the raw materials or components for assembly
2. *Operations*, which turn these into the final product
3. *Outbound logistics*, which distribute the product or service to customers. In the case of a manufacturing operation, this would include warehousing, materials handling and transportation. For a service, this would involve the way in which customers are brought to the location in which the service is to be delivered
4. *Marketing and sales*, which make sure the customers are aware of the product or service and are able to buy it
5. *Service activities*, which include installation, repair and training.

Each of these primary activities is, in turn, linked to the support activities, which are grouped under four headings:

1. The *procurement* of the various inputs
2. *Technology development*, including research and development, process improvements and raw material improvements
3. *Human resources management*, including the recruitment, training, development and rewarding of staff
4. The *firm's infrastructure* and the approach to organization, including the systems, structures, managerial cultures and ways of doing business.

Porter suggests that competitive advantage is determined to a very large extent by how each of these elements is managed and the nature of the interactions between them. In the case of inbound logistics, for example, many organizations have developed just-in-time systems in order to avoid or minimize their stockholding costs. In this way, the value of the activity is increased and the firm's competitive advantage improved. Equally, in the case of operations, manufacturers are paying increasing attention to lean manufacturing processes as a means of improving levels of efficiency. Porter's message is therefore straightforward. Managers, he suggests, need to examine the nature and dimensions of each of the nine activities with a view to identifying how the value added component can best be increased. He then goes on to argue that value chain analysis should not simply stop with the manager's own organization, but in the case of a manufacturer should also include the suppliers and distribution networks, since the value of much of what an organization does will be magnified or constrained by what they do.

3.6 CONDUCTING EFFECTIVE AUDITS

At an earlier stage in this chapter we made reference to the characteristics of effective audits, suggesting that if they are to be worthwhile they should be *comprehensive*, *systematic*, *independent* and *conducted on a regular basis*. These points are discussed below.

Comprehensive auditing

For the auditing process to be worthwhile it is essential that it covers *all* of the major elements of the organization's marketing activity, including those that seemingly are doing well, rather than just a few apparent trouble spots. In this way a distinction can be drawn between the *marketing audit* and a *functional audit*, which would focus far more specifically upon a particular element of marketing activity, such as sales or pricing. As an example of this, a functional audit might well suggest that a high salesforce turnover and low morale is due to a combination of inadequate sales training and a poor compensation package. A more fundamental reason, however, might be that the company has a poor or inadequate product range and an inappropriate pricing and advertising strategy. It is the comprehensiveness of the marketing audit that is designed to reveal these sorts of factors and to highlight the fundamental causes of the organization's problems.

Systematic auditing

In carrying out the audit it is essential that a sequential diagnostic process is adopted, covering the three areas to which reference was made earlier: the external environment, internal marketing systems, and specific marketing activities. This process of diagnosis is then followed by the development *and implementation* of both short-term and long-term plans designed to correct the weaknesses identified and, in this way, improve upon levels of marketing effectiveness.

Independent auditing

There are several ways in which the marketing audit can be conducted. These include:

- A self-audit in which managers use a checklist to assess their own results and methods of operation
- An audit by a manager of the same status but drawn from a different department or division within the organization
- An audit by a more senior manager within the same department or division
- The use of a company auditing office
- A company task force audit group
- An audit conducted by an outside specialist.

Of these, it is generally recognized that an audit conducted by an outside specialist is likely to prove the most objective and to exhibit the independence that any internal process will almost inevitably lack. Adopting this approach should also ensure that the audit receives the undivided time and attention that is needed. In practice, however, many large companies make use of their own audit teams (something that 3M, for example, has pioneered).

This question of who should conduct the audit has been the subject of a considerable amount of research and discussion in recent years with, as indicated above, the argument revolving around the issue of objectivity (in other words, how objective can a line manager be in conducting an evaluation of activities for which he has direct responsibility?). It is largely because of this that it has been suggested that outside consultants should be used to ensure impartiality. This is likely to prove expensive if done annually, and the answer is increasingly being seen to lie in a compromise whereby an outside consultant is used every third or fourth year, with line managers from different departments or divisions being used in the intervening periods. Alternatively, an organization might opt for what is in essence a composite approach, with an external auditor being used initially to validate line managers' self-audits, and subsequently to integrate them to produce an audit result for the marketing function as a whole.

To a large extent, however, it can be argued that the supposed difficulties of achieving impartiality are overstated since a sufficiently well-structured and institutionalized auditing process can overcome many of these difficulties. There is a need, therefore, for managers to be trained in how best to use auditing procedures and, very importantly, for the audit process to be endorsed by senior management. Without top management commitment to the audit process and, in turn, to the need to act on the results that emerge, the entire exercise is likely to prove valueless.

Regular auditing

If the company is to benefit fully from the auditing process, it is essential that it be carried out on a regular basis. All too often in the past companies have been spurred into conducting an audit largely as the result of poor performance. Ironically, this poor performance can often be traced to a myopia on the part of management, stemming from a failure to review activities on a sufficiently regular basis – something that has been pointed to by Shuchman (1950), who commented that: 'No marketing operation is ever so good that it cannot be improved. Even the best *must* be better, for few if any marketing operations can remain successful over the years by maintaining the *status quo*.'

But why bother with a marketing audit?

Although we have so far argued the case for marketing auditing to be carried out on a regular basis, many organizations quite simply do not bother to do this until things go wrong. Most typically, this would be manifested in terms of declining sales, a loss of market share, under-utilized production capacity, a demoralized salesforce, reduced margins, and so on. Faced with these sorts of problems the temptation for management is to firefight and hence fall into the trap of crisis management. In many cases this is characterized by the rapid launching and dropping of products, price-cutting, and attempts at drastic cost reduction. While this sort of response will often have an immediate and apparent pay-off, it is unlikely that it will solve any underlying and fundamental problems. The audit is designed to avoid the need for crisis management by both identifying and defining these fundamental problems before they have any opportunity to affect the organization. Carrying out a regular and thorough marketing audit in a structured manner will therefore go a long way towards giving a company a knowledge of the business, the trends in the market, and where value is added by competitors, as a basis for setting objectives and strategies. These points have been highlighted in a summary of the ten most common findings of marketing audits:

1. A lack of knowledge of customers' behaviour and attitudes
2. A failure to segment markets effectively
3. The absence of marketing planning procedures
4. Reductions in price rather than increases in volume
5. The absence of market-based procedures for evaluating products
6. Misunderstanding company marketing strengths
7. Short-term views of the role of promotion
8. A perception that marketing is limited just to advertising and sales activity
9. Inappropriate organizational structures
10. Insufficient investment in the future, particularly in the area of human resources.

The auditing process

The auditing process should begin with agreement being reached between the organization's marketing director and the marketing auditor – whether someone from inside or outside the organization – regarding the specific objectives, the breadth and depth of coverage, the sources of data, the report format and the time period for the audit. Included within this should be a plan of who is to be interviewed and the questions that are to be asked.

With regard to the question of *who* is to be questioned, it needs to be emphasized that the audit should never be restricted to the company's executives; it should also include customers, the dealer network, and other outside groups. In this way, a better and more complete picture of the company's position and its effectiveness can be developed. In the case of customers and dealers, for example, the auditor should aim to develop satisfaction ratings that are capable of highlighting areas in need of attention.

Once the information has been collected the findings and recommendations need to be presented, with emphasis being given to the type of action needed to overcome any problems, the timescale over which remedial action is to be taken, and the names of those who are to be responsible for this.

Components of the audit

Within the general framework of the external and internal audits, there is the need to focus upon six specific dimensions: These are:

1. *The marketing environment audit*. This involves an analysis of the major macroeconomic forces and trends within the organization's task environment. This includes markets, customers, competitors, distributors, dealers, and suppliers.
2. *The marketing strategy audit*. This focuses upon a review of the organization's marketing objectives and strategy, with a view to determining how well suited they are to the current and forecasted market environment.
3. *The marketing organization audit*. This aspect of the audit follows on from point (2), and is concerned specifically with an evaluation of the structural capability of the organization and its suitability for implementing the strategy needed for the developing environment.
4. *The marketing systems audit*. This covers the quality of the organization's systems for analysis, planning and control.
5. *The marketing productivity audit*. This examines the profitability of different aspects of the marketing programme and the cost-effectiveness of various levels of marketing expenditure.
6. *The marketing functions audit*. This involves a detailed evaluation of each of the elements of the marketing mix.

How are the audit results used?

Having conducted the audit, the question that then arises is how best to use the results. In some companies a considerable amount of time, effort and expense is given over to the auditing process, but the corrective action that is then needed simply falls by the wayside. To ensure that the results are incorporated most effectively within the strategic planning process, the major findings of the audit need to be incorporated within an appropriate framework. This can be done in one of several ways, although undoubtedly the most useful are the SWOT and TOWS frameworks discussed earlier. This should focus on the key internal strengths and weaknesses in relation to the principal external opportunities and threats, and include a summary of the reasons for good or bad performance. It is against the background of this document that the strategist should begin planning at both the functional and the corporate levels.

3.7 SUMMARY

Within this chapter we have focused upon the role and structure of marketing auditing and SWOT and TOWS analysis. In doing this we have highlighted the way in which the marketing audit represents an important first step in the marketing planning process and how, as a result, the value of much of what follows within this process is determined by the thoroughness of the audit procedure. It is therefore essential that the audit exhibits a number of characteristics, the four most significant of which are that it is:

1. Comprehensive in its coverage of the elements of the organization's marketing activity
2. Systematic
3. Independent
4. Conducted on a regular basis.

The purpose of the audit is to provide the strategist with a clear understanding both of environmental opportunities and threats, and of the organization's marketing capability. In doing this the strategist begins by focusing upon the principal macro-environmental forces (political/legal, economic/demographic, social/cultural and technological) that affect the business. He then moves on to consider the micro-environmental actors (customers, competitors, distributors and suppliers) who influence the organization's ability to operate effectively in the marketplace. The internal audit builds upon this by providing an understanding of the extent to which the organization, its structure and resources relate to the environment and have the capability of operating effectively within the constraints that the environment imposes.

In addition to conducting the marketing audit, the strategist needs to carry out regular reviews of the organization's marketing effectiveness. This can be done most readily by means of a checklist that embraces five principal areas:

1. The nature of the customer philosophy
2. The marketing organization
3. Marketing information
4. The strategic perspective
5. Operational efficiency.

Against the background of the picture that emerges from the audit and the review of marketing effectiveness, the strategist should have a clear understanding of both the environment (opportunities and threats) and the organization's marketing capability (strengths and weaknesses). It is this that provides the basis for subsequent marketing planning.