D.3 Marketing Control Systems

CONTROL OF MARKETING PROGRAMS

A **marketing control system** is a set of procedures and measurement techniques that allows the marketer to compare actual performance with intended performance in order to determine if a marketing strategy is reaching its objectives and why it is or is not succeeding.

Control in Marketing. Marketing control systems evaluate marketing strategies by comparing actual performance with standards of desired performance. Both the overall performance of a marketing strategy and the performance of individual elements of the strategy are evaluated. Individual elements include the segments chosen, the positioning, and each of the elements of the marketing mix. The purpose of evaluating marketing strategies against standards is to allow for corrective action in the event that the strategy is not meeting its objectives.

Marketing control is closely related to the **marketing planning process** (see Chapter 4). The marketing plan, which is the result of the marketing planning process, sets objectives of desired or expected performance that the marketing strategy is to accomplish. These marketing objectives serve as control standards to be used by the marketing control system. Marketing performance is evaluated by measuring actual performance against the control standards. Marketing planning and marketing control are related in another way. The marketing plan contains a definition of the marketing strategy to be implemented for a product. It is this marketing strategy that the control system evaluates. And finally, the results of the evaluation of a marketing strategy by the control system are fed back to the next cycle of the marketing planning process, providing data for the next **situation analysis.**

Marketing control is similar to, but not the same as, outcome evaluation. Marketing control is not an integral part of the marketing planning process. Instead, it is a separate step in the marketing management process that follows implementation of the marketing plan. Outcome evaluation is the fourth step in the marketing planning process in which the outcome of a marketing strategy or marketing decision is projected in both financial and nonfinancial terms. The projected outcomes become standards of expected performance and can also serve as control standards.

The marketing control system may be integrated into the **marketing information system** (see GLOSSARY entry D.4). If the firm has a well-formed marketing information system, the measurements of actual performance would be transmitted to the marketing information system and stored in its data base. The information reporting section of the system would prepare control reports, comparing actual performance with standards and transmitting them to the appropriate decision maker for corrective action.

Control of marketing programs can be timed so that corrective action occurs before programs are implemented, while programs are in progress, or after programs are complete. **Precontrol** requires that programs be tested in advance so that actual performance can be projected. Copy pretesting and simulated test markets are two measurement techniques used in precontrolling a marketing program. **Progress controls** require performance measurement as the program is being implemented so that early warning is received of unsatisfactory performance and corrective action can be taken while the program is in progress. Measurement techniques used for progress controls include expenditure budgets, media ratings analysis, and out-of-stock measures. **Postcontrol** awaits completion of a marketing program and then measures the results to see if they met standards. Corrective action is directed to revisions in the program for the next planning period. Profitability measures tend to be used primarily as postcontrol.

The Control Process. The process for controlling a marketing program contains three elements. Installing a marketing control system requires that each of the elements be developed and implemented before the marketing strategy to be controlled is implemented. The three elements are these:

- *Control Standards.* Marketing control standards define the level of performance that the marketing program is to achieve. Control standards can be financial (such as expected profit, contribution, cost, or market share) or nonfinancial (such as the level of customer satisfaction, sales force productivity, or brand awareness). Standards can be concerned with the performance of the total marketing program for a product or with the performance of an individual element in the marketing mix. Control standards are most often derived from objectives stated in the marketing plan. There will be at least as many control standards as there are marketing objectives. To be usable in a control program, standards must be stated in specific and measurable terms.
- *Performance Measurement.* The purpose of performance measurement is to provide information on the actual results of marketing program implementation. A separate performance measure must be designed for each control standard. Performance measurement must be in the terms defined in the control standard. Thus if a control standard is established in terms of profit contribution, a technique must be found for measuring contribution. The measurement technique used will also be influenced by whether precontrol, progress, or postcontrol is to be used. Results of performance measurement must be formed into reports to be supplied to the marketer responsible for corrective action. Reports compare actual performance to the control standards. Reports may be complete or they may report only exceptions or deviations from standards.
- *Corrective Action.* The final step in the control process is to take corrective action. If the control reports indicate a deviation from the standard, it is important that timely action be taken to modify the program in order to improve performance. The initial step in this process is to analyze the deviation in performance from the standard to determine the cause of under- or over-performance. The analysis should distinguish between controllable and uncontrollable variances. Both may call for adjustments to the marketing program, but the adjustments should be dictated by the nature of the problem. Generally, corrective action should be determined and taken by the marketer responsible for implementation of the program, not by an outside controller.

Types of Marketing Control. Because marketing strategies are made up of many different elements, control systems must utilize different types of control.

- *Financial Control.* When objectives and control standards are expressed in financial terms, financial control is used. Financial controls evaluate performance in terms of sales, cost, and profit. Financial control methods are the subject of the second part of this entry.
- *Performance Control.* Most objectives established through marketing planning, although they will result in long-term financial benefits, are expressed in terms of intermediate performance measures. Performance control measures whether or not these intermediate, nonfinancial goals are met. Performance control would measure and evaluate performance in achieving program objectives in such areas as consumer awareness, distribution intensity, sales force training, or customer service. **Ethical evaluation** and evaluation of **legal requirements** can also be considered performance control areas (see GLOSSARY entries D.1 and D.2). Performance control programs tend to be integrated into individual marketing mix programs rather than being part of a separate marketing control program. **Advertising effectiveness evaluation,** for example, is usually treated as a part of the advertising program (see GLOSSARY entry C.3).
- *Strategic Market Control.* The strategic market plan determines how a business will compete by defining the products that it will offer, the segments that it will serve, and the basis on which it will seek competitive advantage. Control of strategic market performance requires periodic evaluation of the progress of the business in reaching product, market segment, and competitive position objectives. This is

usually accomplished through the opportunity analysis that is the initial analytical step in the **strategic market planning process** (see GLOSSARY entry A.20).

- *Marketing Audits.* When an independent marketing expert is brought into a business to conduct a comprehensive and systematic review of marketing performance, it is termed a **marketing audit.**[1] A marketing audit is a form of strategic market control that differs because it is conducted by a person from outside the business and it is not integrated into the strategic market planning process. Marketing audits are often stimulated by occurrence of a major downturn in marketing performance by the business.

FINANCIAL CONTROL METHODS FOR MARKETING

Measurement of financial performance utilizes data captured by the accounting system. Accounting measurements, however, are designed primarily for external reporting purposes and must be transformed if they are to serve as marketing control measures.

Sales Analysis. Sales analysis measures whether or not sales objectives have been met and attempts to diagnose the reason for under- or over-performance.

Sales analysis reports are prepared frequently—monthly, weekly, or even daily in some businesses—in order to give early warning of problems and permit timely corrective action. Sales analysis is used as progress as well as postcontrol.

For sales analysis reporting, sales figures from accounting must be broken down into far more detail than aggregate sales accounts provide. Marketing control requires that sales be broken down by product, size (or style or color), territory, channel, customer type, segment, and other classifications. To make this feasible, sales documents must be coded with the dimensions needed in sales analysis and the details entered in disaggregate data bases so that required tabulations can be easily generated. Where data on total market size are available, such as through retail audit services, market share figures should also be reported.

Sales analysis reports should compare actual sales with the sales objective or standard and differences over or under standard highlighted. When sales results do not meet standard, results should be analyzed to determine the cause of the difference. Examination of the breakdowns of sales may make it possible to pinpoint the problem in a particular product, territory, salesperson, or other dimension. Analysis of variance can give further insight into the cause of sales differences. Changes in sales can be broken down into differences caused by changes in total market size versus those caused by change in market share and into changes in units sold versus changes in price per unit sold.[2]

Sales productivity ratios are sometimes provided as part of the sales analysis and can assist in diagnosing sales differences as well as in evaluating specific marketing programs. Sales productivity ratios compare the level of marketing resources used to the sales results. For example, sales per salesperson indicates the sales productivity of the sales force and the advertising-to-sales ratio is an indicator of the productivity of advertising.

Marketing Cost Analysis. Analysis of marketing costs requires that costs be reallocated from the natural accounts used for accounting purposes (such as salary expense or advertising expense) to product and marketing functions that are to be controlled. To do this, as in the case of sales analysis, marketing costs must be coded and entered into a disaggregate data base so that costs can be reassembled to determine product or function costs. All the costs attributable to a single marketing function, such as warehousing or customer service, are aggregated and re-

[1]See Philip Kotler, William Gregor, and William Rogers, "The Market Audit Comes of Age," *Sloan Management Review* (Winter 1977), pp. 25–43.

[2]See James M. Hulbert and Norman E. Troy, "A Strategic Framework for Marketing Control," *Business Horizons* (December 1978), pp. 65–73.