Chapter

MK 312 Marketing Planning

By

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Budget and Control

- **An organization needs to budget in order to ensure that its expenditures does not exceed planned revenue.**

- **The productivity of an operation is related to how effectively the resources that are input in a process (manufacturing process, service process) are transformed into economic results for the service provider and value for its customers.**

Budget and Control

- Control is the process of ensuring the global marketing activities are carried out as intended. It involves monitoring aspects of performance and taking corrective action where necessary.
- The global marketing control system consists of deciding marketing objectives, setting performance standards, locating responsibility, evaluating performance against standards, and taking corrective or supportive action in each single country and overall.

Productivity defined (in general)

$$\text{Productivity} = \frac{\text{Outputs produced}}{\text{Inputs used}} \mid \text{Constant quality of outputs}$$

Marketing productivity

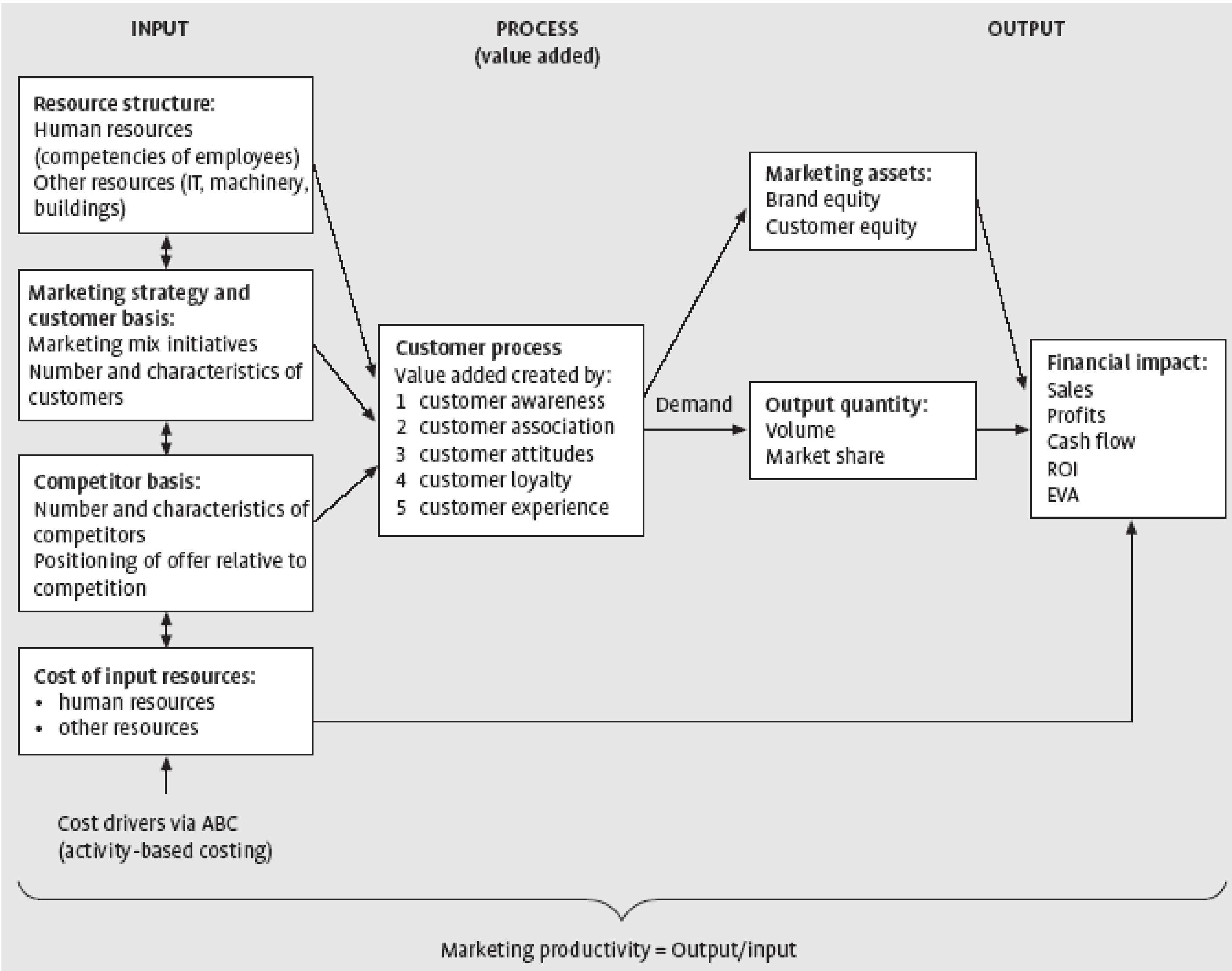

Figure 13.1 Model of marketing productivity

Marketing plan and the annual budget

Table 13.1 Comparison between the marketing plan and the annual budget

Marketing plan	Annual budget
Short term, most often annual	Annual, short term
Compiled by marketing department with input from other areas	Compiled by finance with input from other areas
Integrated into the strategic plan	Integrated into the strategic plan
Used to implement and control an organization's marketing activities	Used to co-ordinate functions and evaluate the performance of individuals
Concerns the use of company resources	Outlines the use of financial and other resources
Establishes benchmarks against which marketing accomplishments can be judged	Establishes benchmarks against which the company's performance can be measured
Has the sales budget as one of its outputs	Has the sales budget as its foundation

Three ways of building a marketing budget

There are three ways to build a marketing budget that is based on a specific strategic market plan and the tactical marketing strategy designed to achieve the target level of performance:

1 **Top-down budget**: a new marketing budget based on projected sales objectives is determined, using past marketing expenses as a percentage of sales.

2 **Customer mix budget**: the cost of customer acquisition and retention, and the combination of new and retained customers are used to derive a new marketing budget.

3 **Bottom-up budget**: each element of the marketing effort is budgeted for specific tasks identified in the marketing plan.

Customer marketing contribution and net profits

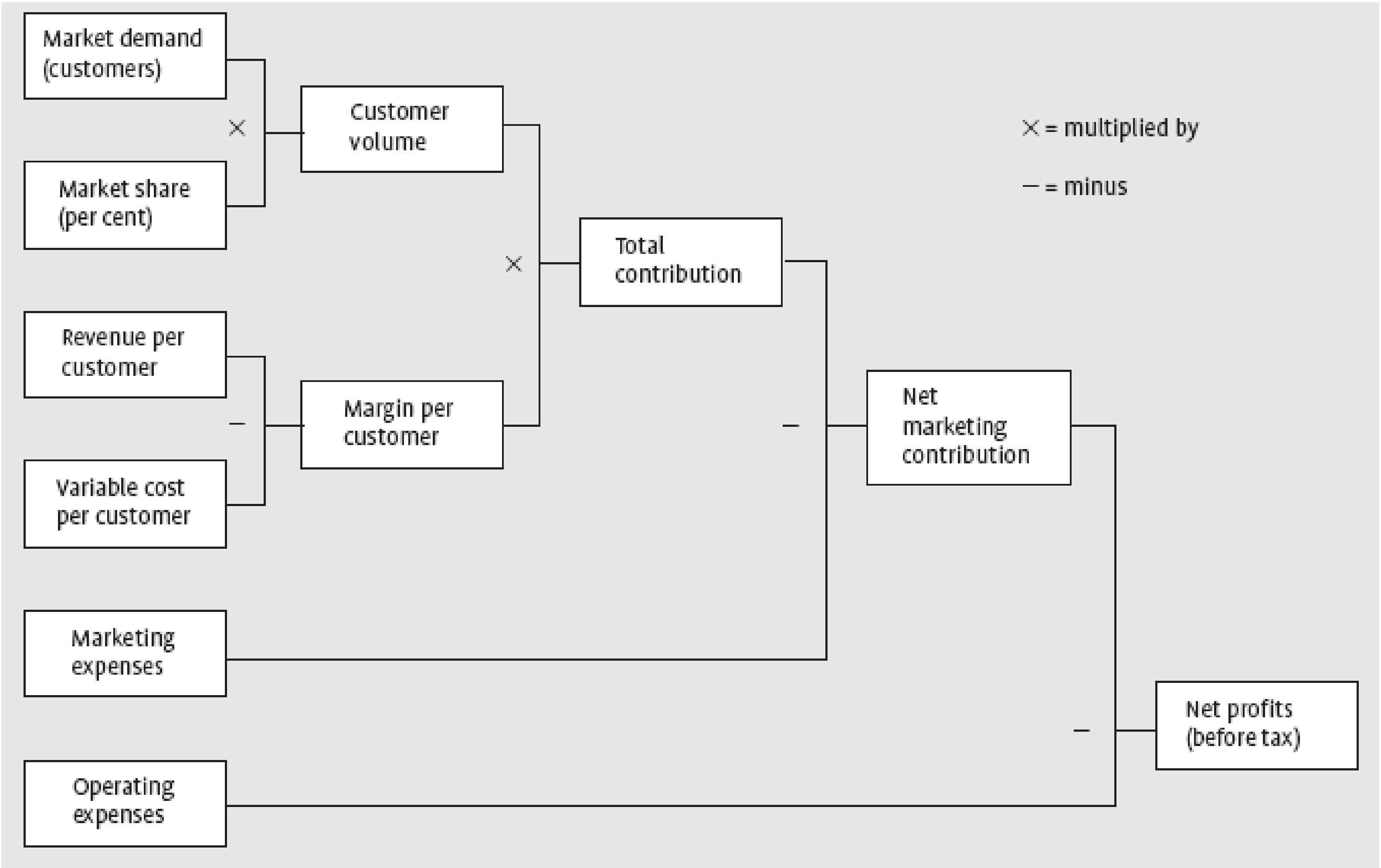

Figure 13.2 A customer-based model of marketing contribution and net profits

The international marketing budget

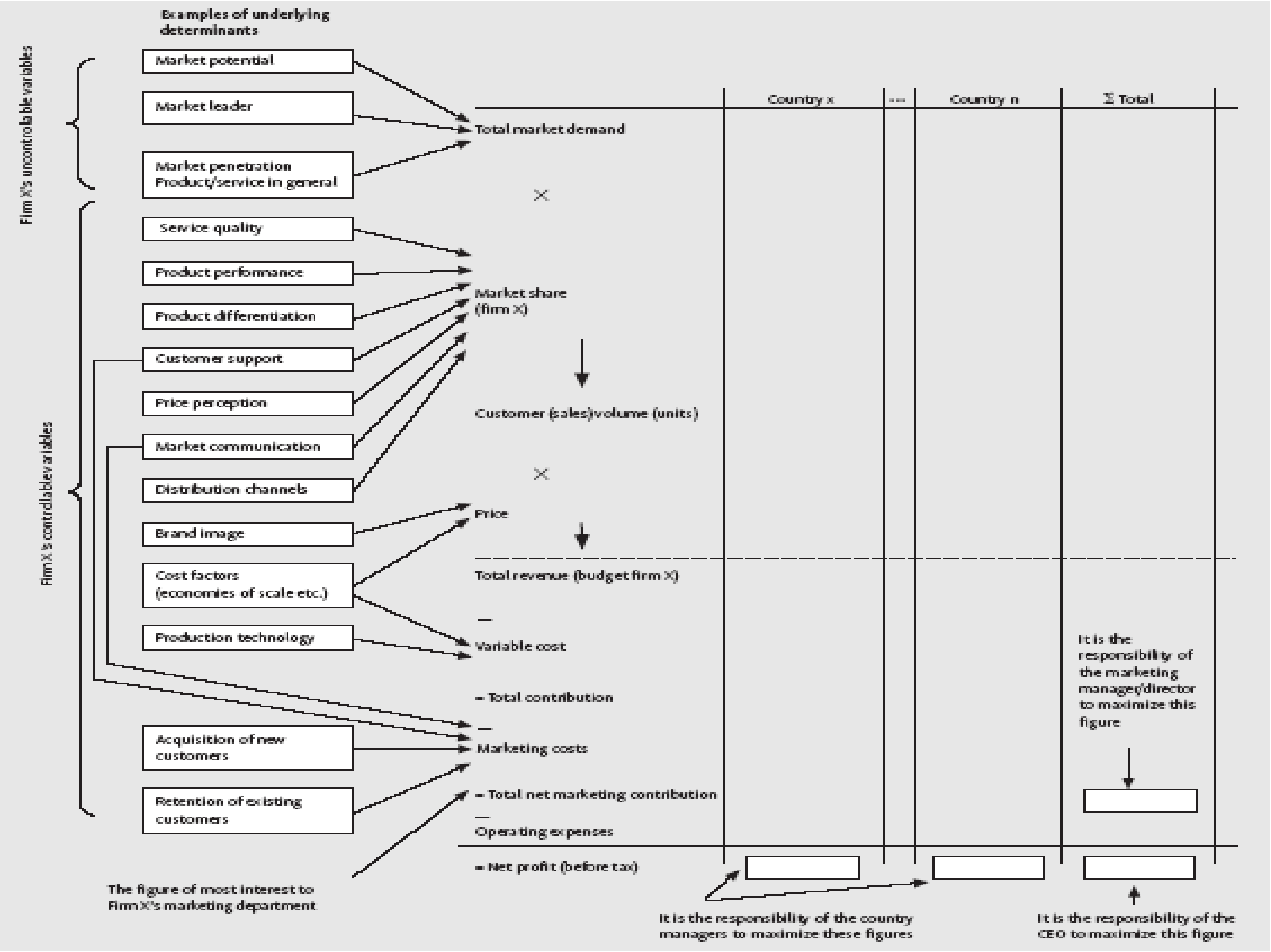

Figure 13.3 The international marketing budget and its underlying determinants

Measures of marketing profitability

$$\textit{Contribution margin \%} = \frac{\text{Total contribution}}{\text{Total revenue}} \times 100$$

$$\textit{Marketing contribution margin \%} = \frac{\text{Total marketing contribution}}{\text{Total revenue}} \times 100$$

$$\textit{Profit margin \%} = \frac{\text{Net profit (before tax)}}{\text{Total revenue}} \times 100$$

If we had information about the size of assets (accounts receivable + inventory + cash + plant + equipment) we could also define:

$$\textit{Return on assets} \text{ (ROA)} = \frac{\text{Net profit (before tax)}}{\text{Assets}}$$

(ROA is similar to the well-known measure ROI = return on investment.)

Incremental ROI

The incremental ROI may be defined as:

$$\text{ROI} = \frac{\text{Incremental total contribution} - \text{Marketing 'investment'}}{\text{Marketing 'investment'}}$$

(Marketing 'investment' is a part of marketing costs in Figure 13.3.)

Exhibit 13.1 External marketing metrics

Customer metric	Measured by
Relative satisfaction	Consumer preference or satisfaction relative to average for market/competitor(s). The competitive benchmark should be stated.
Commitment	Index of switchability (or some similar measure of retention, loyalty, purchase intent or bonding).
Relative perceived quality	Perceived quality satisfaction relative to average for market/competitor(s). The competitive benchmark should be stated.
Relative price	Market share (value)/market share (volume).
Availability	Distribution, e.g. value-weighted per cent of retail outlets carrying the brand.

Exhibit 13.1 Internal marketing metrics

Employee metric	Measured by
Strategy	Awareness of goals (vision)
	Commitment to goals (vision)
	Active innovation support
	Resource adequacy
Culture	Appetite for learning
	Freedom to fail
	Relative employee satisfaction
	Aggregate customer brand empathy (composite index of how well employees see company brands as consumers do)
Outcomes	Number of initiatives in process
	Number of innovations launched
	% revenue due to launches during last three years

Controlling the marketing programme

In preparing a marketing plan, marketers need to plan for three types of marketing control:

Annual control

Profitability control

Strategic control

Annual Control

- The basis of annual-plan control is managerial objectives—that is to say, specific goals, such as sales and profitability, that are established on a monthly or quarterly basis. Organizations use five tools to monitor plan performance.
- The first is sales analysis, in which sales goals are compared with actual sales and discrepancies are explained or accounted for.
- A second tool is market-share analysis, which compares a company's sales with those of its competitors. Companies can express their market share in a number of ways, by comparing their own sales to total market sales, sales within the market segment, or sales of the segment's top competitors.
- Third, marketing expense-to-sales analysis gauges how much a company spends to achieve its sales goals. The ratio of marketing expenses to sales is expected to fluctuate, and companies usually establish an acceptable range for this ratio. In contrast, financial analysis estimates such expenses (along with others) from a corporate perspective. This includes a comparison of profits to sales (profit margin), sales to assets (asset turnover), profits ...

Profitability Control

- Profitability control and efficiency control allow a company to closely monitor its sales, profits, and expenditures. Profitability control demonstrates the relative profit-earning capacity of a company's different products and consumer groups. Companies are frequently surprised to find that a small percentage of their products and customers contribute to a large percentage of their profits..

Strategic Control

- Strategic control processes allow managers to evaluate a company's marketing program from a critical long-term perspective. This involves a detailed and objective analysis of a company's organization and its ability to maximize its strengths and market opportunities.