

# ***Strategic Marketing Planning: Theory and Practice***<sup>1</sup>

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*In order to explore the complexities of developing a strategic marketing plan, this article is written in three parts.*

*The first describes the strategic marketing planning process itself and the key steps within it. It also deals with implementation issues and barriers to marketing planning.*

*The second part provides guidelines for the marketer which will ensure that the input to the marketing plan is customer focused and considers the strategic dimension of all of the relationships the organization has with its business environment.*

*The third part provides a brief overview of a process for assessing whether the strategic marketing plan creates or destroys shareholder value, having taken account of the risks associated with the plan, the time value of money and the cost of capital. It also outlines other metrics for measuring the effectiveness of the marketing strategy.*

**Keywords:** *strategic marketing, planning, world class, success factor, marketing accountability*

## **Introduction**

Research into the efficacy of formalised marketing planning (Thompson 1962; Leighton 1966; Kollatt et al. 1972; Ansoff 1977; McDonald 1984; Greenley 1984; Piercy 1997; Smith 2003) has shown that marketing planning can make a significant contribution to commercial success. The main effects within organizations are:

- the systematic identification of emerging opportunities and threats
- preparedness to meet change
- the specification of sustainable competitive advantage
- improved communication among executives
- reduction of conflicts between individuals and departments
- the involvement of all levels of management in the planning process
- more appropriate allocation of scarce resources
- consistency of approach across the organization
- a more market-focused orientation across the organization

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However; although it can bring many benefits, a strategic marketing plan is mainly concerned with competitive advantage – that is to say, establishing, building, defending and maintaining it.

In order to be realistic, it must take into account the organization's existing competitive position, where it wants to be in the future, its capabilities and the competitive environment it faces. This means that the marketing planner must learn to use the various available processes and techniques which help to make sense of external trends, and to understand the organization's traditional ways of responding to these.

However, this poses the problem regarding which are the most relevant and useful tools and techniques, for each has strengths and weaknesses and no individual concept or technique can satisfactorily describe and illuminate the whole picture. As with a jigsaw puzzle, a sense of unity only emerges as the various pieces are connected together.

The links between strategy and performance have been the subject of detailed statistical analysis by the Strategic Planning Institute. The PIMS (Profit Impact of Market Strategy) project identified from 2600 businesses, six major links (Buzzell 1987). From this analysis, principles have been derived for the selection of different strategies according to industry type, market conditions and the competitive position of the company.

However, not all observers are prepared to take these conclusions at face value. Like strategy consultants Lubatkin and Pitts (1985), who believe that all businesses are unique, they are suspicious that something as critical as competitive advantage can be the outcome of a few specific formulae. For them, the PIMS perspective is too mechanistic and glosses over the complex managerial and organizational problems which beset most businesses.

What is agreed, however, is that strategic marketing planning presents a useful process by which an organization formulates its strategies, *providing it is adapted* to the organization and its environment.

### ***Positioning Marketing Planning with Marketing***

Indeed, Smith's PhD thesis (2003) proved a direct link between organisational success and marketing strategies that conform to what previous scholars have agreed constitutes strategy quality, which was shown to be independent of variables such as size, sector, market conditions and so on.

This thesis linked superior performance to strategies with the following qualities:

1. Homogenous market segment definition
2. Segment specific propositions
3. Strategy uniqueness
4. Strength leverage and weakness minimisation
5. Creation of internal and external synergies
6. Provision of tactical guidance
7. Alignment to objectives
8. Alignment to market trends
9. Appropriate resourcing
10. Clear basis of competition

Let us first, however, position strategic marketing planning firmly within the context of marketing itself.

As can be deduced from Chapter 1, marketing is a process for: defining markets; quantifying the needs of the customer groups (segments) within these markets; determining the value propositions to meet these needs; communicating these value propositions to all those people in the organization responsible for delivering them and getting their buy-in to their role; playing an appropriate part in delivering these value propositions to the chosen market segments; monitoring the value actually delivered.

For this process to be effective, we have also seen that organizations need to be consumer/customer-driven.

A map of this process is shown below. This process is clearly cyclical, in that monitoring the value delivered will update the organization's understanding of the value that is required by its customers. The cycle is predominantly an annual one, with a marketing plan documenting the output from the 'understand value' and 'determine value proposition' processes, but equally changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

It is well known that not all of the value proposition delivering processes will be under the control of the marketing department, whose role varies considerably between organizations.

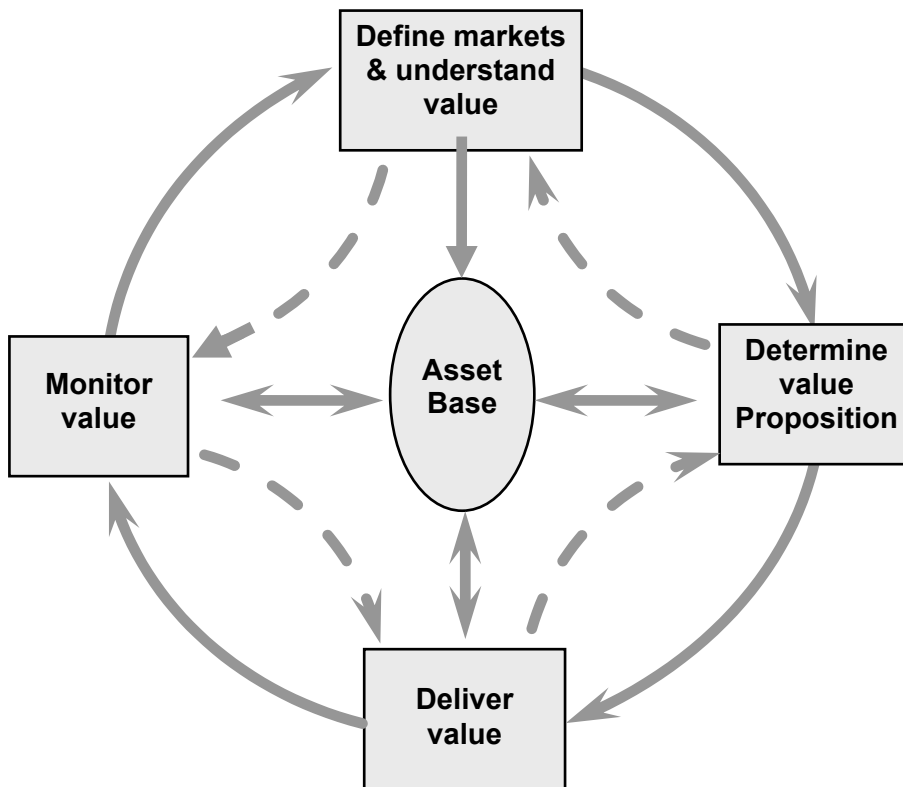


Figure 1. Map of the Marketing Process

The marketing department is likely to be responsible for the first two processes, 'Understand value' and 'Determine value proposition', although even these need to involve numerous functions, albeit co-ordinated by specialist marketing personnel. The 'Deliver value' process is the role of the whole company, including, for example, product development, manufacturing, purchasing, sales promotion, direct mail, distribution, sales and customer service. The marketing department will also be responsible for monitoring the effectiveness of the value delivered.

The various choices made during this marketing process are constrained and informed not just by the outside world, but also by the organization's asset base. Whereas an efficient new factory with much spare capacity might underpin a growth strategy in a particular market, a factory running at full capacity would cause more reflection on whether price should be used to control demand, unless the potential demand warranted further capital investment. As well as physical assets, choices may be influenced by financial, human resources, brand and information technology assets, to name just a few.

Thus, it can be seen that the first two boxes are concerned with strategic marketing planning processes (in other words, developing market strategies), whilst the third and fourth boxes are concerned with the actual delivery in the market of what was planned and then measuring the effect.

Input to this process will commonly include:

- The corporate mission and objectives, which will determine which particular markets are of interest
- External data such as market research
- Internal data which flow from ongoing operations

Also, it is necessary to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs. The importance of doing this correctly was emphasised earlier in the reference to Smith's 2003 PhD. The choice of markets will be influenced by the corporate objectives as well as the asset base. Information will be collected about the markets, such as the market's size and growth, with estimates for the future.

The map is inherently cross-functional. 'Deliver value proposition', for example, involves every aspect of the organization, from new product development through inbound logistics and production to outbound logistics and customer service.

The map represents best practice, not common practice. Many aspects of the map are not explicitly addressed by well-embedded processes, even in sophisticated companies.

Also, the map is changing. One-to-one communications and principles of relationship marketing demand a radically different sales process from that traditionally practised. Hence exploiting new media such as the Internet requires a substantial shift in thinking, not just changes to IT and hard processes. An example is illuminating. Marketing managers at one company related to us their early experience with a website which was enabling them to reach new customers considerably more cost-effectively than their traditional sales force. When the website was first launched,

potential customers were finding the company on the Web, deciding the products were appropriate on the basis of the website, and sending an e-mail to ask to buy. So far so good. But stuck in a traditional model of the sales process, the company would allocate the 'lead' to a salesperson, who would phone up and make an appointment perhaps three weeks' hence. The customer would by now probably have moved on to another online supplier who could sell the product today, but those that remained were subjected to a sales pitch which was totally unnecessary, the customer having already decided to buy. Those that were not put off would proceed to be registered as able to buy over the Web, but the company had lost the opportunity to improve its margins by using the sales force more judiciously. In time the company realised its mistake: unlike those prospects which the company identified and contacted, which might indeed need 'selling' to, many new Web customers were initiating the dialogue themselves, and simply required the company to respond effectively and rapidly. The sales force was increasingly freed up to concentrate on major clients and on relationship building.

Having put marketing planning into the context of marketing and other corporate functions, we can now turn specifically to the marketing planning process, how it should be done and what the barriers are to doing it effectively. We are, of course, referring specifically to the second box in Figure 1.

### **The Marketing Planning Process**

Most managers accept that some kind of procedure for marketing planning is necessary. Accordingly they need a system which will help them to think in a structured way and also make explicit their intuitive economic models of the business. Unfortunately, very few companies have planning systems which possess these characteristics. However, those that do tend to follow a similar pattern of steps.

Figure 2 illustrates the several stages that have to be gone through in order to arrive at a marketing plan. This illustrates the difference between the *process* of marketing planning and the actual plan itself, which is the *output* of the process, which is discussed later in this chapter

Each of the process stages illustrated in Figure 2 will be discussed in more detail in this article. The dotted lines joining up stages 5–8 are meant to indicate the reality of the planning process, in that it is likely that each of these steps will have to be gone through more than once before final programmes can be written.

### **How Formal Should this Process Be?**

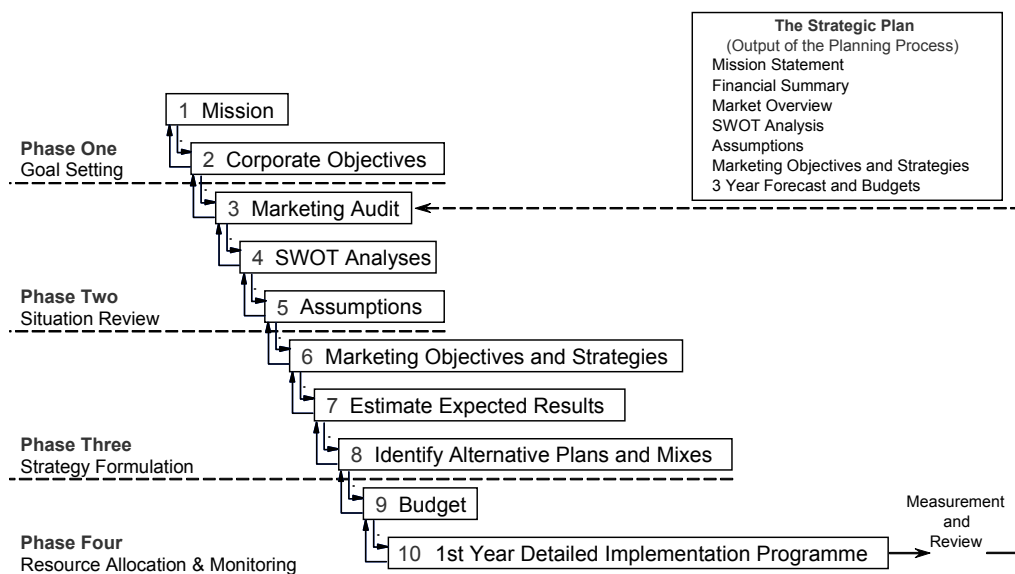
Although research has shown these marketing planning steps to be universally applicable, the degree to which each of the separate steps in the diagram needs to be formalized depends to a large extent on the size and nature of the company. For example, an undiversified company generally uses less formalized procedures, since top management tends to have greater functional knowledge and expertise than subordinates, and because the lack of diversity of operations enables direct control to be exercised over

most of the key determinants of success. Thus, situation reviews, the setting of marketing objectives, and so on, are not always made explicit in writing, although these steps have to be gone through.

In contrast, in a diversified company, it is usually not possible for top management to have greater functional knowledge and expertise than subordinate management, hence planning tends to be more formalized in order to provide a consistent discipline for those who have to make the decisions throughout the organization.

Either way, there is now a substantial body of evidence to show that formalized planning procedures generally result in greater profitability and stability in the long term and also help to reduce friction and operational difficulties within organizations.

Johnson and Bailey's (2000) typology of the different styles of planning went some way to throwing light on the actual degree of formalisation of marketing planning processes, although Smith's 2003 thesis reduced these to three - visionary processes, rational processes and incremental processes, with most successful companies using some combination of all three.



**Figure 2. The Ten Steps of the Strategic Marketing Planning Process**

Where marketing planning has failed, it has generally been because companies have placed too much emphasis on the procedures themselves and the resulting forecasts, rather than on generating information useful to and consumable by management. But more about reasons for failure later. For now, let us look at the marketing planning process in more detail, starting with the mission statement.

### **Step 1 Mission Statement**

Figure 2 shows that a strategic marketing plan should begin with a mission or purpose statement. This is perhaps the most difficult aspect of marketing planning for managers to master, because it is largely

philosophical and qualitative in nature. Many organizations find their different departments, and sometimes even different groups in the same department, pulling in different directions, often with disastrous results, simply because the organization hasn't defined the boundaries of the business and the way it wishes to do business.

Here, we can see two levels of mission. One is a *corporate* mission statement, the other is a lower level, or *purpose* statement. But there is yet another level, as shown in the following summary:

- Type 1** 'Motherhood' – usually found inside annual reports designed to 'stroke' shareholders. Otherwise of no practical use.
- Type 2** The real thing. A meaningful statement, unique to the organization concerned, which 'impacts' on the behaviour of the executives at all levels.
- Type 3** This is a 'purpose' statement (or lower level mission statement). It is appropriate at the strategic business unit, departmental or product group level of the organization.

The following is an example of a meaningless, vapid, motherhood-type mission statement, which most companies seem to have. They achieve nothing and it is difficult to understand why these pointless statements are so popular. Employees mock them and they rarely say anything likely to give direction to the organization. We have entitled this example The Generic Mission Statement and they are to be avoided.

#### THE GENERIC MISSION STATEMENT

Our organization's primary mission is to protect and increase the value of its owners' investments while efficiently and fairly serving the needs of its customers. [...insert organization name...] seeks to accomplish this in a manner that contributes to the development and growth of its employees, and to the goals of countries and communities in which it operates.

The following should appear in a mission or purpose statement, which should normally run to no more than one page:

- 1 *Role or contribution*
  - Profit (specify), or
  - Service, or
  - Opportunity seeker
- 2 *Business definition* – define the business, preferably in terms of the *benefits* you provide or the *needs* you satisfy, rather than in terms of what you make.
- 3 *Distinctive competences* – these are the essential

skills/capabilities resources that underpin whatever success has been achieved to date. Competence can consist of one particular item or the possession of a number of skills compared with competitors. If, however, you could equally well put a competitor's name to these distinctive competences, then they are not distinctive competences.

- 4 *Indications for the future*
  - What the firm *will* do
  - What the firm *might* do
  - What the firm will *never* do

### **Step 2 Setting Corporate Objectives**

Corporate objectives usually contain at least the following elements:

- The desired level of profitability
- Business boundaries
  - What kind of products will be sold to what kinds of markets (marketing)
  - What kinds of facilities will be developed (operations, R and D, information systems, distribution etc.)
  - The size and character of the labour force (personnel)
  - Funding (finance)
- Other corporate objectives, such as social responsibility, corporate image, stock market image, employer image, etc.

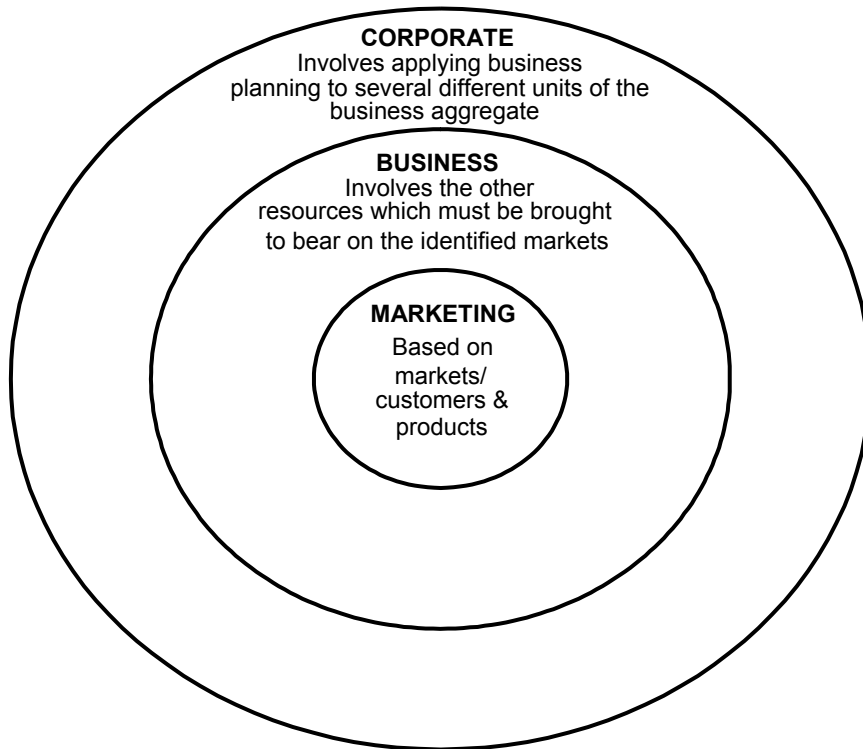
Such a corporate plan, containing projected profit and loss accounts and balance sheets, being the result of the process described above, is more likely to provide long-term stability for a company than plans based on a more intuitive process and containing forecasts which tend to be little more than extrapolations of previous trends. This process is further summarized in Figure 3.

### **Step 3 The Marketing Audit**

Any plan will only be as good as the information on which it is based, and the marketing audit is the means by which information for planning is organized. There is no reason why marketing cannot be audited in the same way as accounts, in spite of its more innovative, subjective nature. A marketing audit is a systematic appraisal of all the external and internal factors that have affected a company's commercial performance over a defined period.

Given the growing turbulence of the business environment and the shorter product life cycles that have resulted, no one would deny the need to stop at least once a year at a particular point in the planning cycle to try to form a reasoned view of how all the many external and internal factors have influenced performance.





**Figure 3. The Strategic Planning Hierarchy**

Sometimes, of course, a company will conduct a marketing audit because it is in financial trouble. At times like these, management often attempts to treat the wrong symptoms, most frequently by reorganizing the company. But such measures are unlikely to be effective if there are more fundamental problems which have not been identified. Of course, if the company survived for long enough, it might eventually solve its problems through a process of elimination. Essentially, though, the argument is that the problems have first to be properly defined. The audit is a means of helping to define them.

#### ***Two Kinds of Variable***

Any company carrying out an audit will be faced with two kinds of variable. There is the kind over which the company has no direct control, for example economic and market factors. Second, there are those over which the company has complete control, the operational variables, which are usually the firm's internal resources. This division suggests that the best way to structure an audit is in two parts, external and internal. Table 1 shows areas which should be investigated under both headings. Each should be examined with a view to building up an information base relevant to the company's performance.

**Table 1. Conducting an Audit**

External audit	Internal audit
<i>Business and economic environment</i> Economic political, fiscal, legal, social, cultural Technological Intra-company  <i>The market</i> Total market, size, growth and trends(value volume) Market characteristics, developments and trends; products, prices, physical distribution, channels, customers, consumers, communication, industry practices <i>Competition</i> Major competitors Size Market share coverage Market standing and reputation Production capabilities Distribution policies Marketing methods Extent of diversification Personnel issues International links Profitability	Own company Sales (total, by geographical location, by industrial type, by customer, by product) Market shares Profit margins, costs Marketing Information research Marketing mix variables, product management, price, distribution, promotion, operations and resources Key strengths and weaknesses

Many people mistakenly believe that the marketing audit should be some kind of final attempt to define a company's marketing problems, or, at best, something done by an independent body from time to time to ensure that a company is on the right track. However, many highly successful companies, as well as using normal information and control procedures and marketing research throughout the year, start their planning cycle each year with a formal, audit-type process, of everything that has had an important influence on marketing activities. Certainly, in many leading consumer goods companies, the annual self-audit approach is a tried and tested discipline.

Objections to line managers doing their own audits usually centre around the problem of time and objectivity. In practice, a disciplined approach and thorough training will help. But the discipline must be applied from the highest to the lowest levels of management if the tunnel vision that often results from a lack of critical appraisal is to be avoided.

Where relevant, the marketing audit should contain life cycles for major products and for market segments, for which the future shape will be predicted using the audit information. Also, major products and markets

should be plotted on some kind of matrix to show their current competitive position.

The next question is: what happens to the results of the audit?

Some companies consume valuable resources carrying out audits that produce very little in the way of results. The audit is simply a database, and the task remains of turning it into intelligence, that is, information essential to decision making.

#### **Step 4 Market Overview**

This step which appears prominently in the actual strategic marketing plan, should spell out clearly:

- what the market is
- how it works
- what the key decision making points are
- what the segments are

Market definition is fundamental to success and must be made in terms of need sets rather than in product/service terms. Thus, Gestetner failed by defining its Markets as “duplicators” and IBM almost failed by defining its market as “main frames”. Accordingly, a pension is not a market, as many other products can satisfy the same or similar needs. The following table lists hypothetical markets in the financial services sector.

<b>Some Market Definitions (personal market)</b>	
<b>Market</b>	<b>Need (on-line)</b>
Emergency Cash ('Rainy Day')	Cash to cover an undesired and unexpected event often the loss of/damage to property).
Future Event Planning	Schemes to protect and grow money which are for anticipated and unanticipated cash calling events (eg. Car replacement/repairs, education, weddings, funerals, health care)
Asset Purchase	Cash to buy assets they require (eg. Car purchase, house purchase, once-in-a-lifetime holiday).
Welfare Contingency	The ability to maintain a desired standard of living (for self and/or dependants) in times of unplanned cessation of salary.
Retirement Income	The ability to maintain a desired standard of living (for self and/or dependants once the salary cheques have ceased.
Wealth Care and Building	The care and growth of assets (with various risk levels and liquidity levels).
Day-to-Day Money Management	Ability to store and readily access cash for day-to-day requirements.
Personal Financial Protection and Security from Motor Vehicle Incidents	Currently known as car insurance.

The following two figures show the marketing books market in the UK. The first shows the market “mapped” solely as marketing books. The second shows the market mapped in terms of the broader market definition of

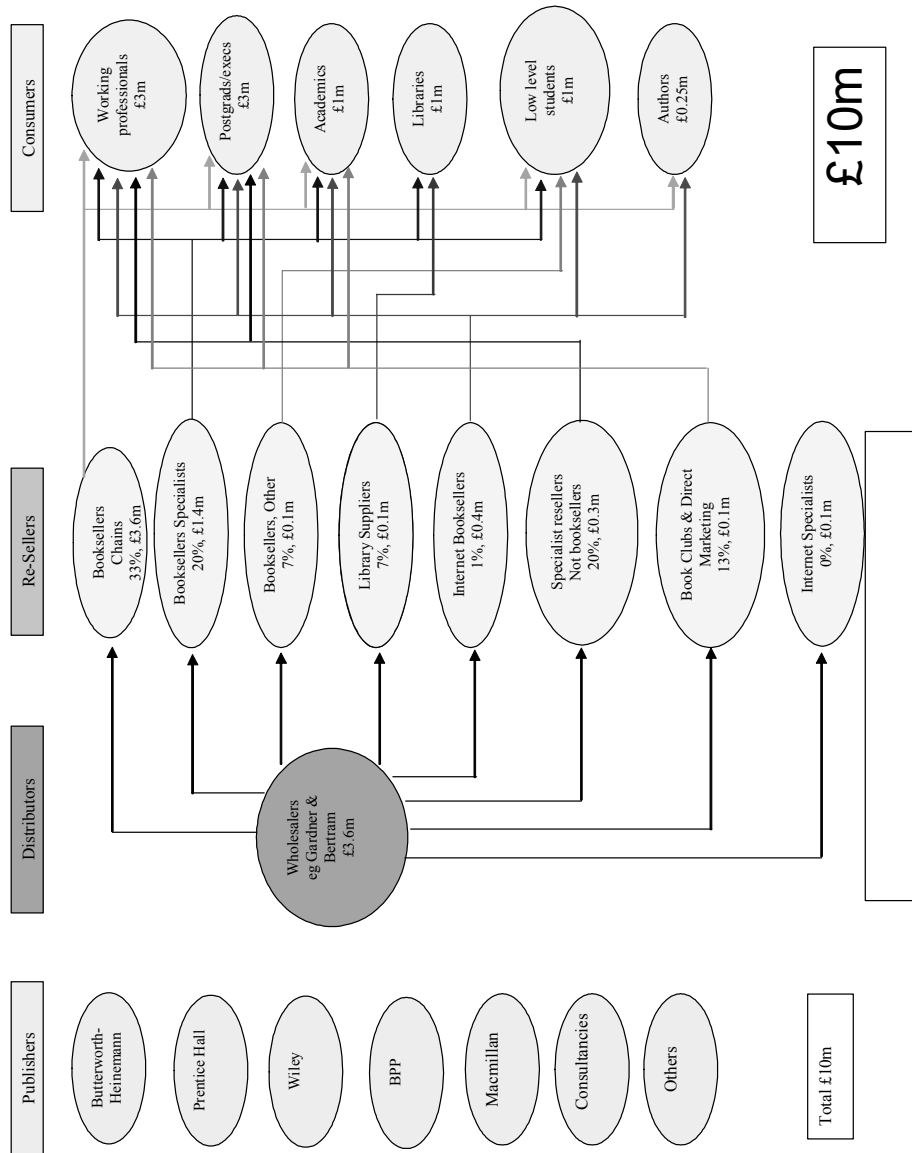


Figure 4. Market Map for Marketing Books in the UK

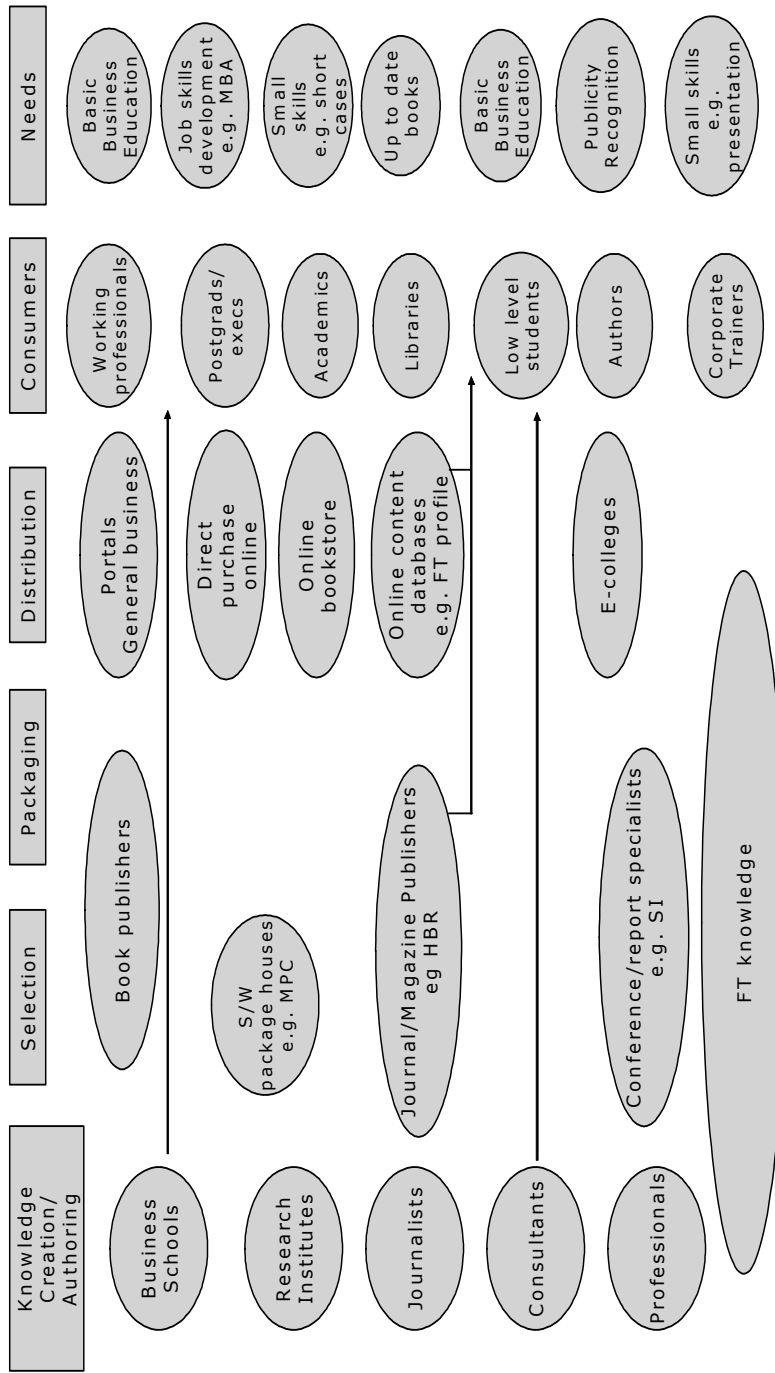
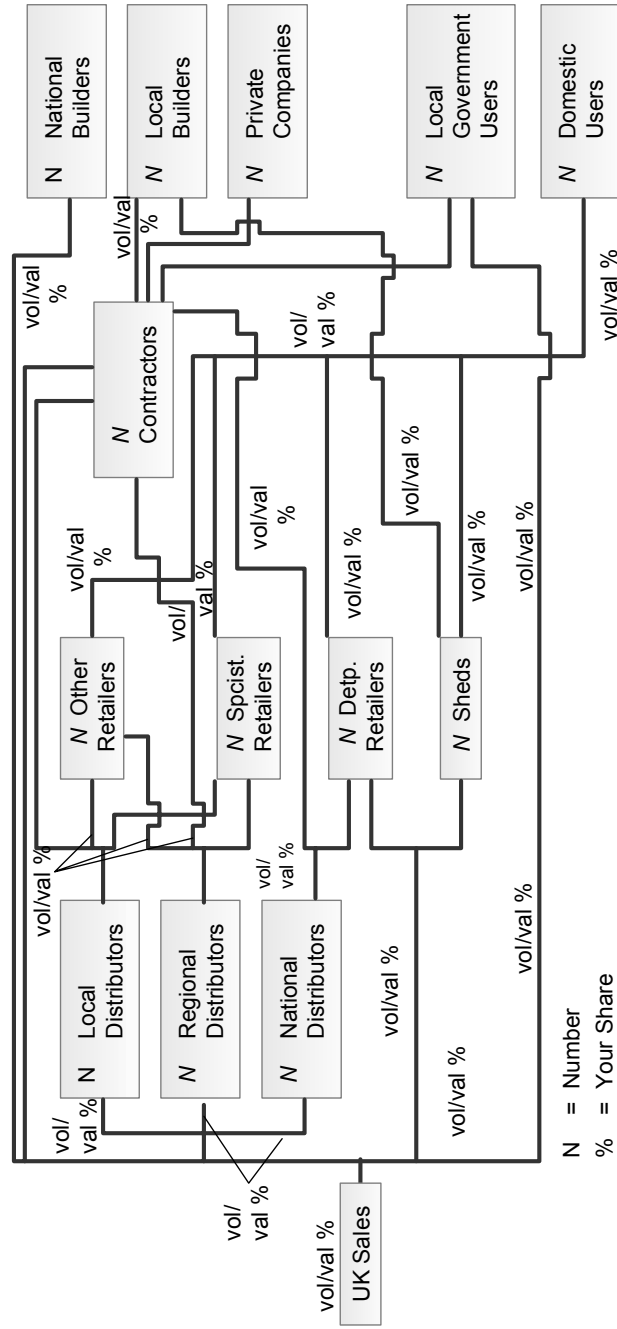


Figure 5. Future Marketing Map for Books

# Market mapping

...including the number of each customer type



NB. Sketch out complex junctions separately. Alternatively, build an outline map, applying details at the junctions to be segmented.

Figure 6. An Example of a Generic Market Map

knowledge promulgation, from which it can be seen that new competitors and distribution channels come into play. Thinking and planning like this certainly had a dramatic effect on the marketing strategy of the major publisher involved.

Figure 6 is a generic market map, which shows how a market works from suppliers to users and, like a balance sheet, it must “balance”, in the sense that if five million radiators are made or imported, five million radiators must be distributed, five million radiators must be installed and the decision about which radiators are to be installed must be made by someone. It is the purpose of the market map to spell all this out quantitatively.

It is at key decision points that market segmentation should take place. A segment is a group of customers or consumers that share the same (or approximately the same) needs. This step is crucial, for it is upon the key segments from the market map that SWOT analyses should be completed.

### **Step 5 SWOT Analyses**

The only remaining question is what happens to the results of the audit? Some companies consume valuable resources carrying out audits that bring very little by way of actionable results.

Indeed, there is always the danger that, at the audit stage, insufficient attention is paid to the need to concentrate on analysis that determines which trends and developments will actually affect the company. Whilst the checklist demonstrates the completeness of logic and analysis, the people carrying out the audit should discipline themselves to omit from their audits all the information that is not central to the company's marketing problems. Thus, inclusion of research reports, or over-detailed sales performance histories by product which lead to no logical actions whatever, only serve to rob the audit of focus and reduce its relevance.

Since the objective of the audit is to indicate what a company's marketing objectives and strategies should be, it follows that it would be helpful if some format could be found for organizing the major findings.

One useful way of doing this is in the form of a number of SWOT analyses. A SWOT is a summary of the audit under the headings, internal strengths and weaknesses as they relate to external opportunities and threats.

A SWOT should be conducted for each segment that is considered to be important in the company's future. These SWOT analyses should, if possible, contain just a few paragraphs of commentary focusing on *key* factors only. They should highlight internal *differential* strengths and weaknesses *vis-à-vis* competitors and *key* external opportunities and threats. A summary of reasons for good or bad performance should be included. They should be interesting to read, contain concise statements, include only relevant and important data, and give greater emphasis to creative analysis. To summarize, carrying out a regular and thorough marketing audit in a

structured manner will go a long way towards giving a company a knowledge of the business, trends in the market, and where value is added by competitors, as the basis for setting objectives and strategies.

### **Step 6 Assumptions**

Let us now return to the preparation of the marketing plan. If we refer again to the marketing planning process, and have completed our marketing audit and SWOT analyses, assumptions now have to be written.

There are certain key determinants of success in all companies about which assumptions have to be made before the planning process can proceed.

It is really a question of standardizing the planning environment. For example, it would be no good receiving plans from two product managers, one of whom believed the market was going to increase by 10 per cent, while the other believed the market was going to decline by 10 per cent.

Examples of assumptions might be:

'With respect to the company's industrial climate, it is assumed that:

- Industrial overcapacity will increase from 105 per cent to 115 per cent as new industrial plants come into operation.
- Price competition will force price levels down by 10 per cent across the board.
- A new product in the field of x will be introduced by our major competitor before the end of the second quarter'.

Assumptions should be few in number, and if a plan is possible irrespective of the assumptions made, then the assumptions are unnecessary.

### **Step 7 Marketing Objectives and Strategies**

The next step in marketing planning is the writing of marketing objectives and strategies, the key the whole process.

An *objective* is what you want to achieve. A *strategy* is how you plan to achieve your objectives.

Thus, there can be objectives and strategies at all levels in marketing. For example, there can be advertising objectives and strategies, and pricing objectives and strategies.

However, the important point to remember about marketing objectives is that they are about *products* and *markets* only. Common sense will confirm that it is only by selling something to someone that the company's financial goals can be achieved, and that advertising, pricing, service levels and so on are the means (or strategies) by which we might succeed in doing this. Thus, pricing objectives, sales promotion objectives, advertising objectives and the like should not be confused with marketing objectives.



Marketing objectives are simply about one, or more, of the following:

- Existing products for existing markets
- New products for existing markets
- Existing products for new markets
- New products for new markets

They should be capable of measurement, otherwise they are not objectives. Directional terms such as 'maximize', 'minimize', 'penetrate', 'increase', etc. are only acceptable if quantitative measurement can be attached to them. Measurement should be in terms of some, or all, of the following: sales volume; sales value; market share; profit; percentage penetration of outlets (for example, to have 30 per cent of all retail outlets stocking our product by year 3).

Marketing strategies are the means by which marketing objectives will be achieved and generally are concerned with the four Ps, as follows:

Product	The general policies for product deletions, modifications, additions, design, branding, positioning, packaging, etc.
Price	The general pricing policies to be followed by product groups in market segments.
Place	The general policies for channels and customer service levels
Promotion	The general policies for communicating with customers under the relevant headings, such as advertising, sales force, sales promotion, public relations, exhibitions, direct mail, etc.

### **Step 8 Estimate Expected Results and Identify Alternative Plans and Mixes**

Having completed this major planning task, it is normal at this stage to employ judgement, analogous experience, field tests, and so on, to test out the feasibility of the objectives and strategies in terms of market share, costs, profits, and so on. It is also normally at this stage that alternative plans and mixes are considered, if necessary.

### **Step 9 The Budget**

In a strategic marketing plan, these strategies would normally be costed out approximately and, if not practicable, alternative strategies would be proposed and costed out until a satisfactory solution could be reached. This would then become the budget. In most cases, there would be a budget for the full three years of the strategic marketing plan, but there would also be a very detailed budget for the first year of the plan which would be included in the one-year operational plan.

It will be obvious from all of this that the setting of budgets becomes not only much easier, but the resulting budgets are more likely to be realistic and related to what the *whole* company wants to achieve, rather than just one functional department.

The problem of designing a dynamic system for budget setting, rather than the 'tablets of stone' approach, which is more common, is a major challenge to the marketing and financial directors of all companies.

The most satisfactory approach would be for a marketing director to justify all marketing expenditure from a zero base each year against the tasks he or she wishes to accomplish. A little thought will confirm that this is exactly the approach recommended in this chapter. If these procedures are followed, a hierarchy of objectives is built up in such a way that every item of budgeted expenditure can be related directly back to the initial corporate financial objectives. For example, if sales promotion is a major means of achieving an objective in a particular market, when sales promotional items appear in the programme, each one has a specific purpose which can be related back to a major objective.

Doing it this way not only ensures that every item of expenditure is fully accounted for as part of a rational, objective and task approach, but also that when changes have to be made during the period to which the plan relates, these changes can be made in such a way that the least damage is caused to the company's long-term objectives.

The incremental marketing expense can be considered to be all costs that are incurred after the product leaves the factory, *other than* costs involved in physical distribution, the costs of which usually represent a discrete subset.

There is, of course, no textbook answer to problems relating to questions such as whether packaging should be a marketing or a production expense, and whether some distribution costs could be considered to be marketing costs. For example, insistence on high service levels results in high inventory carrying costs. Only common sense will reveal workable solutions to issues such as these.

Under *price*, however, any form of discounting that reduces the expected gross income, such as promotional discounts, quantity discounts, royalty rebates, and so on, as well as sales commission and unpaid invoices, should be given the most careful attention as incremental marketing expenses.

Most obvious incremental marketing expenses will occur, however, under the heading promotion, in the form of advertising, sales salaries and expenses, sales promotional expenditure, direct mail costs, and so on. The important point about the measurable effects of marketing activity is that anticipated levels should be the result of the most careful analysis of what is required to take the company towards its goals, while the most careful attention should be paid to gathering all items of expenditure under appropriate headings. The healthiest way of treating these issues is a zero-bases budgeting approach.

### **Step 10 First Year Detailed Implementation Programme**

In a one-year tactical plan, the general marketing strategies would be developed into specific sub-objectives, each supported by more detailed strategy and action statements.

A company organized according to functions might have an advertising plan, a sales promotion plan a pricing plan, and so on.

A product-based company might have a product plan, with

objectives, strategies and tactics for price, place and promotion as necessary.

A market or geographically based company might have a market plan, with objectives, strategies and tactics for the four Ps as necessary.

Likewise, a company with a few major customers might have customer plans.

Any combination of the above might be suitable, depending on circumstances.

A written strategic marketing plan is the back drop against which operational decisions are taken. Consequently, too much detail should be avoided. Its major function is to determine where the company is, where it wants to go and how it can get there. It should be distributed on a 'need to know' basis only. It should be used as an aid to effective management. It cannot be a substitute for it.

### ***What Should Appear in a Strategic Marketing Plan?***

A written marketing plan is the back-drop against which operational decisions are taken.

### **Table 2. What Should Appear in a Strategic Marketing Plan**

1. Start with a mission statement.
2. Here, include a financial summary which illustrates graphically revenue and profit for the full planning period.
3. Now do a market overview: Has the market declined or grown? How does it break down into segments? What is your share of each? Keep it simple. If you do not have the facts, make estimates. Use life cycles, bar charts and pie charts to make it all crystal clear.
4. Now identify the key segments and do a SWOT analysis for each one: Outline the major external influences and their impact on each segment. List the key factors for success. These should be less than five. Give an assessment of the company's differential strengths and weaknesses compared with those of its competitors. Score yourself and your competitors out of 10 and then multiply each score by a weighting factor for each critical success factor (e.g. CSF 1 = 60, CSF 2 = 25, CSF 3 = 10, CSF 4 = 5).
5. Make a brief statement about the key issues that have to be addressed in the planning period.
6. Summarize the SWOTs using a portfolio matrix in order to illustrate the important relationships between your key products and markets.
7. List your assumptions.
8. Set objectives and strategies.
9. Summarize your resource requirements for the planning period in the form of a budget.

Consequently, too much detail should be avoided. Its major function is to determine where the company is, where it wants to go and how it can get

there. It lies at the heart of a company's revenue-generating activities, such as the timing of the cash flow and the size and character of the labour force. What should actually appear in a written strategic marketing plan is shown in Table 2. This strategic marketing plan should be distributed only to those who need it, but it can only be an aid to effective management. It cannot be a substitute for it.

It will be obvious from Table 2 that not only does budget setting become much easier and more realistic, but the resulting budgets are more likely to reflect what the whole company wants to achieve, rather than just one department.

The problem of designing a dynamic system for setting budgets is a major challenge to the marketing and financial directors of all companies. The most satisfactory approach would be for a marketing director to justify all marketing expenditure from a zero base each year against the tasks to be accomplished. If these procedures are followed, a hierarchy of objectives is built in such a way that every item of budgeted expenditure can be related directly back to the initial financial objectives.

For example, if sales promotion is a major means of achieving an objective, when a sales promotion item appears in the programme, it has a specific purpose which can be related back to a major objective. Thus every item of expenditure is fully accounted for.

Marketing expense can be considered to be all costs that are incurred after the product leaves the 'factory', apart from those involved in physical distribution. When it comes to pricing, any form of discounting that reduces the expected gross income – such as promotional or quantity discounts, overrides, sales commission and unpaid invoices – should be given the most careful attention as marketing expenses. Most obvious marketing expenses will occur, however, under the heading of promotion, in the form of advertising, sales salaries and expenses, sales promotion and direct mail costs.

The important point about the measurable effects of marketing activity is that anticipated levels should result from careful analysis of what is required to take the company towards its goals, while the most careful attention should be paid to gathering all items of expenditure under appropriate headings. The healthiest way of treating these issues is through zero-based budgeting.

We have just described the strategic marketing plan and what it should contain. The tactical marketing plan layout and content should be similar, but the detail is much greater, as it is for one year only.

### ***Marketing Planning Systems Design and Implementation***

While the actual process of marketing planning is simple in outline, a number of contextual issues have to be considered that make marketing planning one of the most baffling of all management problems. The following are some of those issues:

- When should it be done, how often, by whom, and how?
- Is it different in a large and a small company? Is it different in a diversified and an undiversified company?
- What is the role of the chief executive?

- What is the role of the planning department?
- Should marketing planning be top-down or bottom-up?
- What is the relationship between operational (one year) and strategic (longer-term) planning?

### ***Requisite Strategic Marketing Planning***

Many companies with financial difficulties have recognized the need for a more structured approach to planning their marketing and have opted for the kind of standardized, formalized procedures written about so much in textbooks. Yet, these rarely bring any benefits and often bring marketing planning itself into disrepute.

It is quite clear that any attempt at the introduction of formalized marketing planning requires a change in a company's approach to managing its business. It is also clear that unless a company recognizes these implications, and plans to seek ways of coping with them, formalized strategic planning will be ineffective.

Research (McDonald 1982) has shown that the implications are principally as follows:

- 1 Any closed-loop planning system (but especially one that is essentially a forecasting and budgeting system) will lead to dull and ineffective marketing. Therefore, there has to be some mechanism for preventing inertia from setting in through the over-bureaucratization of the system.
- 2 Planning undertaken at the functional level of marketing, in the absence of a means of integration with other functional areas of the business at general management level, will be largely ineffective.
- 3 The separation of responsibility for operational and strategic planning will lead to a divergence of the short-term thrust of a business at the operational level from the long-term objectives of the enterprise as a whole. This will encourage preoccupation with short-term results at operational level, which normally makes the firm less effective in the longer term.
- 4 Unless the chief executive understands and takes an active role in strategic marketing planning, it will never be an effective system.
- 5 A period of up to three years is necessary (especially in large firms) for the successful introduction of an effective strategic marketing planning system.

The same PHD (McDonald 1982) also found that the principal barriers to implementing marketing planning are those listed in Table 3.

**Table 3. Barriers to the Integration of Strategic Marketing Planning**

1. Weak support from the chief executive and top management.
2. Lack of a plan for planning.
3. Lack of line management support due to any of the following, either singly or in combination:
  - hostility
  - lack of skills
  - lack of information
  - lack of resources
  - inadequate organizational structure.
4. Confusion over planning terms.
5. Numbers in lieu of written objectives and strategies.
6. Too much detail, too far ahead.
7. Once-a-year ritual.
8. Separation of operational planning from strategic planning.
9. Failure to integrate marketing planning into total corporate planning system.
10. Delegation of planning to a planner.

Let us be dogmatic about requisite planning levels. First, in a large diversified group, irrespective of such organizational issues, anything other than a systematic approach approximating to a formalized marketing planning system is unlikely to enable the necessary control to be exercised over the corporate identity. Second, unnecessary planning, or over planning, could easily result from an inadequate or indiscriminate consideration of the real planning needs at the different levels in the hierarchical chain. Third, as size and diversity grow, so the degree of formalization of the marketing planning process must also increase. This can be simplified in the form of a matrix, Figure 7.

It has been found that the degree of formalization increases with the evolving size and diversity of operations (see Figure 7). However, while the degree of formalization will change, the need for an effective marketing planning system does not. The problems that companies suffer, then, are a function of either the degree to which they have a requisite marketing planning system or the degree to which the formalization of their system grows with the situational complexities attendant upon the size and diversity of operations.

Figure 8 shows four key outcomes that marketing planning can evoke. It can be seen that systems 1, 3 and 4 (i.e. where the individual is totally subordinate to a formalized system, or where there is neither system nor creativity), are less successful than system 2, in which the individual is allowed to be entrepreneurial within a total system. System 2, then, will be an effective marketing planning system, but one in which the degree of formalization will be a function of company size and diversity.

One of the most encouraging findings to emerge from research is that the theory of marketing planning is universally applicable. While the planning task is less complicated in small, undiversified companies and there is less need for formalized procedures than in large, diversified companies,

		Company Size		
		Large	Medium	Small
Market / product delivery	High	High formalisation	High/medium formalisation	Medium formalisation
	Medium	High/medium formalisation	Medium formalisation	Low formalisation
	Low	Medium formalisation	Low formalisation	High formalisation

Figure 7. Planning Formalisation

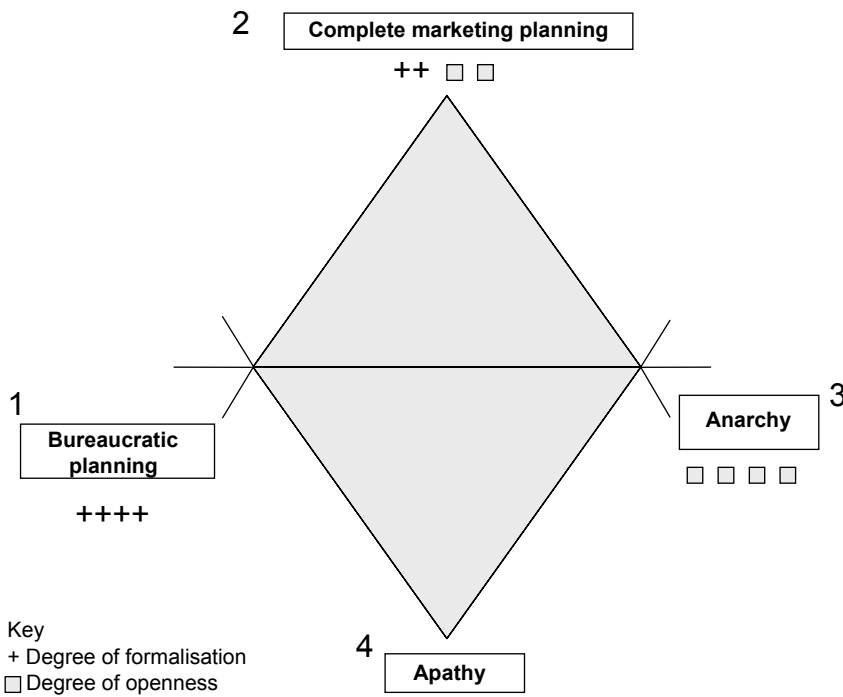


Figure 8. Four Key Outcomes

the fact is that exactly the same framework should be used in all circumstances, and that this approach brings similar benefits to all.

### ***How Far Ahead Should We Plan?***

It is clear that one and three year planning periods are by far the most common. Lead time for the initiation of major new product innovations, the length of time necessary to recover capital investment costs, the continuing availability of customers and raw materials and the size and usefulness of existing plant and buildings are the most frequently mentioned reasons for having a three year planning horizon.

Many companies, however, do not give sufficient thought to what represents a sensible planning horizon for their particular circumstances. A five year time span is clearly too long for some companies, particularly those with highly versatile machinery operating in volatile fashion-conscious markets. The effect of this is to rob strategic plans of reality.

The conclusion to be reached is that there is a natural point of focus into the future beyond which it is pointless to look. This point of focus is a function of the relative size of a company. Small companies, because of their size and the way they are managed, tend to be comparatively flexible in the way in which they can react to environmental turbulence in the short term. Large companies, on the other hand, need a much longer lead time in which to make changes in direction. Consequently, they tend to need to look further into the future and to use formalized systems for this purpose so that managers throughout the organization have a common means of communication.

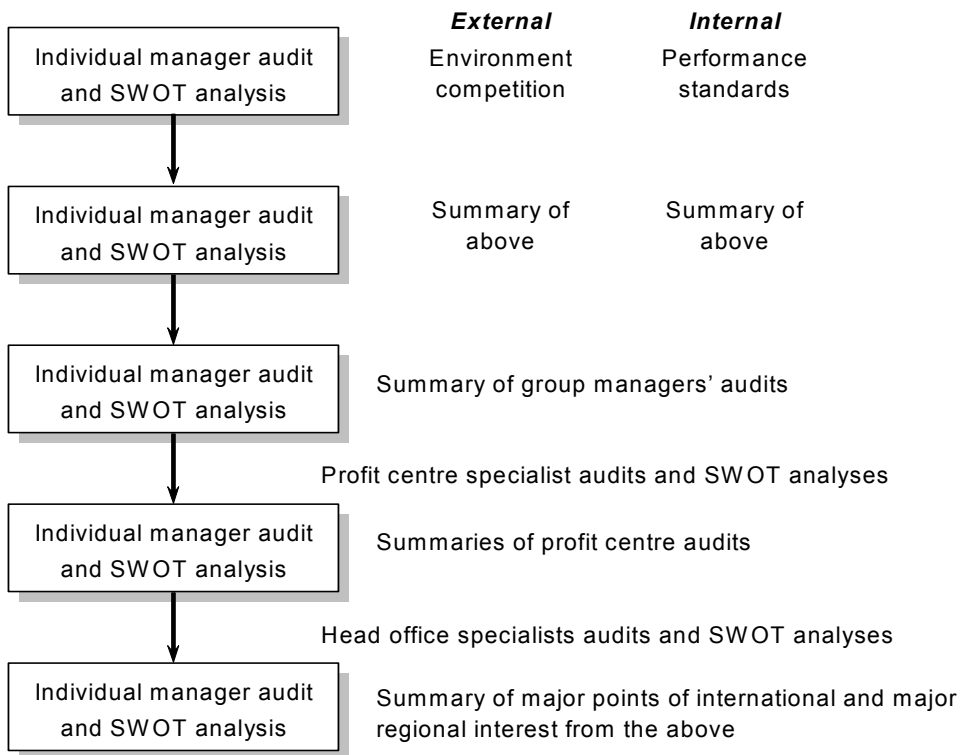
### ***How the Marketing Planning Process Works***

As a basic principle, strategic marketing planning should take place as near to the marketplace as possible in the first instance, but such plans should then be reviewed at higher levels within an organization to see what issues may have been overlooked.

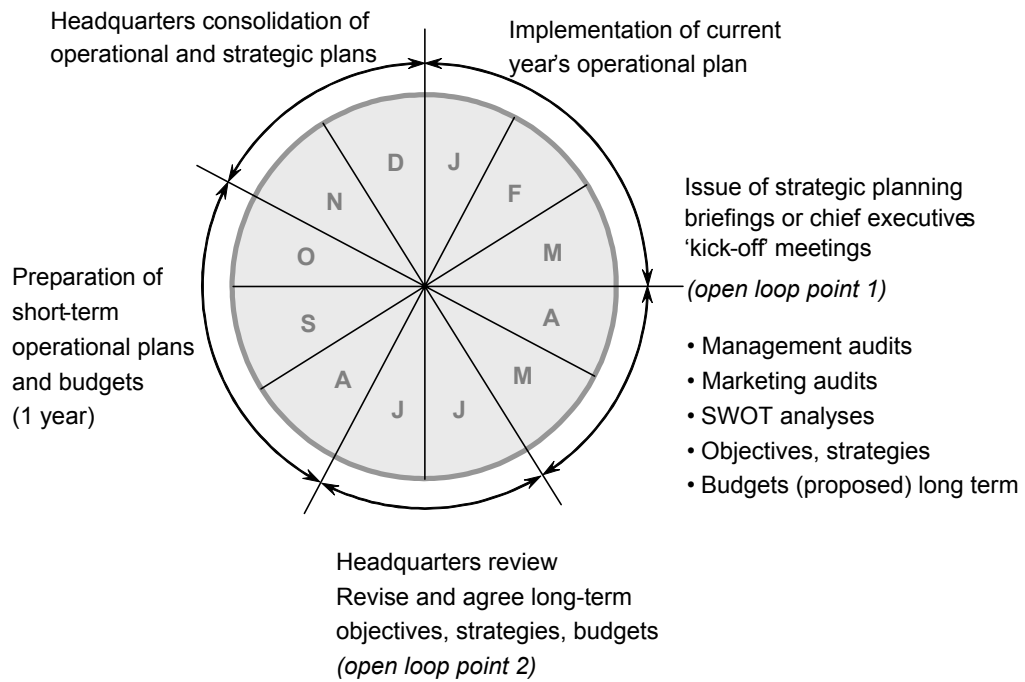
It has been suggested that each manager in the organization should complete an audit and SWOT analysis on his or her own area of responsibility. The only way that this can work in practice is by means of a hierarchy of audits. The principle is simply demonstrated in Figure 9. This figure illustrates the principle of auditing at different levels within an organization. The marketing audit format will be universally applicable. It is only the detail that varies from level to level and from company to company within the same group.

Figure 10 illustrates the total corporate strategic and planning process. This time, however, a time element is added, and the relationship between strategic planning briefings, long-term corporate plans and short-term operational plans is clarified. It is important to note that there are two 'open-loop' points on this last diagram. These are the key times in the planning process when a subordinate's views and findings should be subjected to the closest examination by his or her superior. It is by taking these opportunities that marketing planning can be transformed into the critical and creative process it is supposed to be rather than the dull, repetitive ritual it so often turns out to be.





**Figure 9. Hierarchy of Audits**



**Figure 10. Strategic and Operational Planning**

Since in anything but the smallest of undiversified companies it is not possible for top management to set detailed objectives for operating units, it is suggested that at this stage in the planning process strategic guidelines should be issued. One way of doing this is in the form of a strategic planning letter. Another is by means of a personal briefing by the chief executive at 'kick-off' meetings. As in the case of the audit, these guidelines would proceed from the broad to the specific, and would become more detailed as they progressed through the company towards operating units.

These guidelines would be under the headings of financial, manpower and organization, operations and, of course, marketing.

Under marketing, for example, at the highest level in a large group, top management may ask for particular attention to be paid to issues such as the technical impact of microprocessors on electromechanical component equipment, leadership and innovation strategies, vulnerability to attack from the flood of Japanese, Korean and Third World products, and so on. At operating company level, it is possible to be more explicit about target markets, product development, and the like.

### **Conclusions**

In concluding this section, we must stress that there can be no such thing as an off-the-peg marketing planning system and anyone who offers one must be viewed with great suspicion. In the end, strategic marketing planning success comes from an endless willingness to learn and to adapt the system to the people and the circumstances of the firm. It also comes from a deep understanding about the nature of marketing planning, which is something that, in the final analysis, cannot be taught.

However, strategic marketing planning demands that the organization recognizes the challenges that face it and their effect on its potential for future success. It must learn to focus on customers and their needs at all times and explore every avenue which may provide it with a differential advantage over its competitors.

The next section looks at some guidelines which lead to effective marketing planning.

### **Guidelines for Effective Marketing Planning**

Although innovation remains a major ingredient in commercial success, there are nevertheless other challenges which companies must overcome if they wish to become competitive marketers. While their impact may vary from company to company, challenges such as the pace of change, the maturity of markets and the implications of globalization need to be given serious consideration. Some of the more obvious challenges are shown in Table 4.

To overcome these challenges the following guidelines are recommended to help the marketer to focus on effective marketing strategies.

**Table 4. Change and the Challenge to Marketing**

<i>Nature of change</i>	<i>Marketing challenges</i>
<b>Pace of change</b>	
Compressed time horizons	Ability to exploit markets more rapidly
Shorter product life cycles	More effective new product development
Transient customer preferences	Flexibility in approach to markets
	Accuracy in demand forecasting
	Ability to optimize price-setting
<b>Process thinking</b>	
Move to flexible manufacturing and control systems	Dealing with micro-segmentation
Materials substitution	Finding ways to shift from single focus to the forging of long-term relationships
Developments in microelectronics and robotization	Creating greater customer commitment
Quality focus transaction	
<b>Market maturity</b>	
Over-capacity	
Low margins	
Lack of growth	
Stronger competition	Adding value leading to differentiation
Trading down	New market creation and stimulation
Cost-cutting	
<b>Customer's expertise and power</b>	
More demanding of buying power	Higher expectations
More sophisticated	More knowledgeable
Getting closer to the customer	Concentration of buyer behaviour
Managing the complexities of multiple market channels	Finding ways of getting closer to the customer
	Managing the complexities of multiple market channels
<b>Internationalization of business</b>	
More competitors	Stronger competition
Larger markets	Lower margins
More disparate customer needs	More customer choice
Restructuring of domestic operations to compete internationally	More disparate customer needs
Becoming customer-focused in larger and more disparate markets	Restructuring of domestic operations to compete internationally

***Twelve Guidelines for Effective Marketing******1. Understand the Sources of Competitive Advantage***

Guideline 1 shows a universally recognised list of sources of competitive advantage (Porter 1982). For small firms, these are more likely to be the ones listed on the left. It is clearly possible to focus on highly specialised niches with special skills and to develop very customer-focused relationships not possible for large organisations. Flexibility is also likely to be a potential source of competitive advantage.

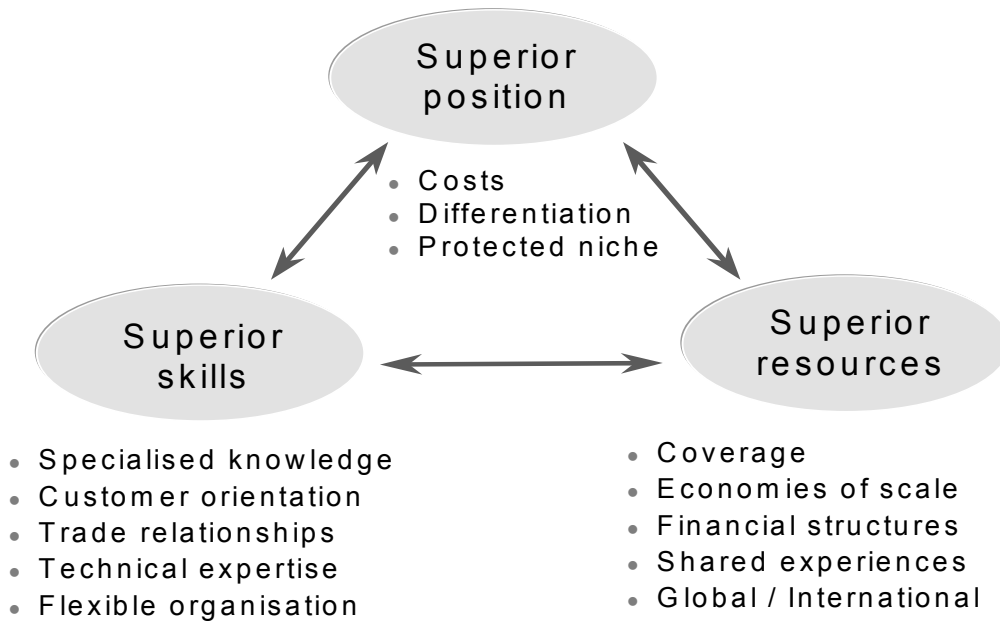
What all firms should seek to avoid wherever possible is competing

with an undifferentiated product or service in too broad a market.

The author frequently has to spell out to the self employed consultants who seek his advice that without something different to offer (that is required by the market, of course!), they will continue to struggle and will have to rely on the crumbs that fall from the table of others.

This leads on to the second point.

### Understand the Sources of Competitive Advantage



### 2. Understand Differentiation

Guideline 2 takes this point a little further and spells out the main sources of differentiation. The fifth of these in particular, superior service, is likely to be the main source of competitive advantage and firms should work relentlessly towards the differential advantage that these will bring.

Understand Differentiation
<ul style="list-style-type: none"> <li>• Superior product quality</li> <li>• Innovative product features</li> <li>• Unique product or service</li> <li>• Strong brand name</li> <li>• Superior service (speed, responsiveness, ability to solve problems)</li> <li>• Wide distribution coverage</li> </ul> <p>It is essential to be committed to <u>innovation</u>. Continuously strive to serve customer needs better</p>

### 3. *Understand the Environment*

Guideline 3 spells out what is meant by the word 'Environment'.

Although this one will be the least appealing to many organisations, nonetheless, there is now an overwhelming body of evidence to show that it is failure to monitor the hostile environmental changes that is the biggest cause of failure in both large and small companies. Had anyone predicted the demise of IBM five years ago, they would have been derided. Yet it was their failure to observe the changes taking place about them that caused their current problems.

Clearly, 'Marketing' has a key role to play in the process. This means devoting at least some of the key executives' time and resources to monitoring formally the changes taking place about them. If they do not know how to go about doing this, get in a good consultant to start them off and then continue to do it themselves.

<b>Understand the Environment</b> (opportunities and threats)	
MACRO ENVIRONMENT	
•	Political/Regulatory
•	Economic
•	Technological
•	Societal
MARKET/INDUSTRY ENVIRONMENT	
•	Market Size and Potential
•	Customer Behaviour
•	Segmentation
•	Suppliers
•	Channels
•	Industry Practices
•	Industry Profitability
Carry out a formal marketing audit	

This leads on naturally to the next point.

### 4. *Understand Competitors*

Guideline 4 is merely an extension of the marketing audit. Suffice it to say that if any organisation, big or small, doesn't know as much about its close competitors as it knows about itself, it should not be surprised if it fails to stay ahead.

Again, if anyone is unsure how to go about this, use a consultant initially, although the author's advice is to use a modicum of commonsense and sweet reasonableness in this process, stopping short, of course, of industrial espionage!

Closely connected with this is a final piece of information in this process we have referred to as a Marketing Audit.

### Understand Competitors

- Direct Competitors
- Potential Competitors
- Substitute Products
- Forward integration by Suppliers
- Backward integration by Customers
- Competitors' Profitability
- Competitors' Strengths and Weaknesses

Develop a structured competitor monitoring process. Include the results in the marketing audit.

### 5. *Understand Your Own Strengths and Weaknesses*

Guideline 5 sets out potential sources of differentiation for your own organisation. It represents a fairly comprehensive audit of the asset bases. Along with the other two sections of the Marketing Audit (The *Environment* and *Competitors*), it is important to make a written summary of your conclusions from all of this.

If you cannot summarise on a couple of sheets of paper the sources of your own competitive advantage, it has not been done properly. If this is the case, the chances are that you are relying on luck. Alas, luck has a habit of being somewhat fickle!

### Strengths and Weaknesses

Carry out a formal position audit of your own product/market position in each segment in which you compete. In particular, understand by segment:

- What the qualifying features and benefits are
- What the differential features and benefits are
- How relatively important each of these are
- How well your product or service performs against your competitors on each of these requirements.

### 6. *Understand Market Segmentation*

Guideline 6 looks somewhat technical and esoteric, at first sight. Nonetheless, market segmentation is one of the key sources of commercial success and needs to be taken seriously by all organisations, as the days of the easy marketability of products and services have long since disappeared for all but a lucky few.

The secret of success, of course, is to change the offer in accordance with changing needs and not to offer exactly the same product or service to everyone - the most frequent, production-oriented mistake of large organisations.

Closely connected with this is the next point.

### Market Segmentation

- Not all customers in a broadly-defined market have the same needs.
- Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.
- Select a segment and serve it. Do not straddle segments and sit between them.
  - (a) understand how your market works (market structure)
  - (b) List what is bought (including where, when, how, applications)
  - (c) List who buys (demographics, psychographics)
  - (d) List why they buy (needs, benefits sought)
  - (e) Search for groups with similar needs

### 7. Understand the Dynamics of Product/Market Evolution

Whilst at first sight Guideline 7 looks as if it applies principally to large companies, few will need reminding of the short-lived nature of many retailing concepts, such as the boutiques of the late 1980s. Those who clung doggedly onto a concept that had had its day lived to regret it.

### 8. Understand Your Portfolio of Products and Markets

#### Understand your Portfolio of Products and Markets

You cannot be all things to all people. A deep understanding of portfolio analysis will enable you to set appropriate objectives and allocate resources effectively. Portfolio logic arrays competitive position against market attractiveness in a matrix form.

		High	Low
Market attractiveness	High	2	3
	Low	1	4
		Competitive position	

- Box 1 Maintain and manage for sustained earnings  
 Box 2 Invest and build for growth  
 Box 3 Selectively invest  
 Box 4 Manage for cash

Guideline 8 suggests plotting either products/services, or markets (or, in some cases, customers) on a vertical axis in order of the potential of each for you to achieve your personal and commercial objectives as, clearly, they can't all be equal. Organisations will obviously have greater or lesser strengths in serving each of these 'markets'. For each location on the four box matrix, put a circle, the size of which represents current sales. This will give a reasonably accurate 'picture' of your business at a glance and will indicate whether or not it is a well balanced portfolio. Too much in any one box is dangerous.

Follow the guidelines given and there is no reason why any firm should not have a healthy and growing business.

#### 9. *Set Clear Strategic Priorities and Stick to Them*

Guideline 9 suggests writing down the results of your earlier endeavours in summary form (a marketing/business plan).

##### **Set Clear Strategic Priorities**

- Focus your best resources on the best opportunities for achieving continuous growth in sales and profits.
- This means having a written strategic marketing plan for 3 years containing:
  - A mission statement
  - A financial summary
  - A market overview
  - SWOT analyses on key segments
  - A portfolio summary
  - Assumptions
  - Marketing objectives and strategies
  - A budget
- This strategic plan can then be converted into a detailed one year plan.
- To do this, an agreed marketing planning process will be necessary.
- Focus on key performance indicators with an unrelenting discipline.

Whilst it is not the intention of the author to stifle creativity by suggesting that any firm should get into a bureaucratic form of planning, it remains a fact that those individuals and organisations who can make explicit their intended sources of revenue and profits, and to thrive and prosper in the long term. This implies something more sophisticated than forecasts and budgets. Commercial history has demonstrated that any fool can spell out the financial results they wish to achieve. But it takes intellect to spell out how they are to be achieved. This implies setting clear strategic priorities and sticking to them.



### 10. *Understand Customer Orientation*

Guideline 10 will be familiar to all successful firms. BS 5750, ISO 9001 and the like, whilst useful for those with operations such as production processes, have little to do with real quality, which, of course, can only be seen through the eyes of the customer. It is obvious that making anything perfectly that no one buys is somewhat of a pointless exercise.

#### Understand Customer Orientation

- Develop customer orientation in all functions. Ensure that every function understand that they are there to serve the customer not their own narrow functional interests.
- This must be driven from the board downwards.
- Where possible, organise in cross-functional teams around customer groups and core processes
- Make customers the arbiter of quality.

Whilst it is, perhaps, easier for small companies than for large companies to check out customer satisfaction, this should nonetheless be done continuously, for it is clearly the only real arbiter of quality.

### 11. *Be Professional*

Guideline 11 sets out some of the marketing skills essential to continuous success. Professional management skills, particularly in marketing, are becoming the hallmark of commercial success in the

#### Be Professional

Particularly in marketing, it is essential to have professional marketing skills, which implies formal training in the underlying concepts, tools and techniques of marketing. In particular, the following are core:

- Market Research
- Gap Analysis
- Market Segmentation/Positioning
- Product Life Cycle Analysis
- Portfolio Management
- The Four Ps
  - Product Management
  - Pricing
  - Place (customer service, channel management)
  - Promotion (selling, sales force management, advertising, sales promotion)

1990s. There are countless professional development skills courses available to all firms. Alas, too many directors consider themselves too busy to attend, which is extremely short sighted. Entrepreneurial skills, combined with hard-edged management skills, will see any firm through to the turn of the century.

### **12. Give Leadership**

Guideline 12 sets out the final factor for success in the 1990s.

#### **Give Leadership**

- |  |
|--|
| <ul style="list-style-type: none"><li>• Do not let doom and gloom pervade your thinking</li><li>• The hostile environment offers many opportunities for companies with toughness and insight</li><li>• Lead your team strongly</li><li>• Do not accept poor performance in the most critical positions</li></ul> |
|--|

Charismatic leadership, however, without the eleven other pillars of success, will be to no avail. Few will need reminding of the charisma of Maxwell, Halpen, Saunders and countless others during the past decade. Charisma, however, without something to sell that the market values, will ultimately be pointless. It is, nonetheless, still an important ingredient in success.

### **Conclusions**

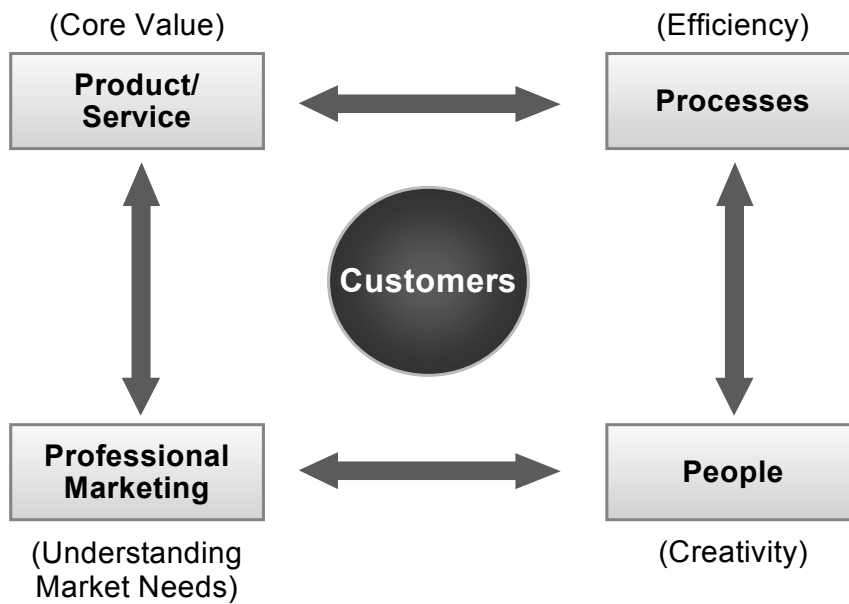
Lest readers should think that the twelve factors for success are a figment of the imagination, there is much recent research to suggest otherwise. The four ingredients listed in Figure 11 are common to all commercially successful organisations, irrespective of their national origin.

From this it can be seen that the core product or service on offer has to be excellent.

Secondly, operations have to be efficient and, preferably, state-of-the-art.

Thirdly, the research stresses the need for creativity in leadership and personnel; something frequently discouraged by excessive bureaucracy in large organisations.

Finally, excellent companies to professional marketing. This means that the organisation continuously monitors the environment, the market, competitors and their own performance against customer-driven standards.



**Figure 11. The Principal Components of World Class Organisations**

### **Do Marketing Plans Contribute to Profitability**

Marketing metrics, or accountability, is one of the biggest challenges facing the marketing community today. It is a major theme of research at the Australian Marketing Institute, the Worshipful Company of Marketors, the British Chartered Institute of Marketing, the Chief Marketing Officer, Council of America and at Cranfield School of Management, to name but a few.

The reason is not hard to find, given the pressure that so many Western European and American Companies are under because of maturing markets. Certainly, any Chief Executive Officer, on asking their marketing Chief what shareholders had received for the millions spent on marketing, on being told that a change in attitude or an improvement in awareness had occurred, they would be justified in replacing them with someone who could be more accountable and responsible. So, in a chapter on Marketing Planning, it would be remiss not to address this topic.

### ***Three Distinct Levels for Measuring Marketing Effectiveness***

When the author was Marketing Director of a fast moving consumer goods company thirty years ago, there were many well tried-and-tested models for measuring the effectiveness of marketing promotional expenditure. Indeed, some of these were quite sophisticated and included mathematical models for promotional campaigns, for advertising threshold and wear out levels and the like.

Indeed, it would be surprising if marketing as a discipline did not have its own quantitative models for the massive expenditure of fmcg companies. Over time, these models have been transferred to business-business and service companies, with the result that, today, any

organisation spending substantial sums of shareholders' money on promotion should be ashamed of themselves if those responsible could not account for the effectiveness of such expenditure.

But, at this level, accountability can only be measured in terms of the kinds of effects that promotional expenditure can achieve, such as awareness, or attitude change, both of which can be measured quantitatively.

But to assert that such expenditure can be measured directly in terms of sales or profits is intellectually indefensible, when there are so many other variables that affect sales, such as product efficacy, packaging, price, the sales force, competitors and countless other variables that, like advertising, have an intermediate impact on sales and profits.

So, the problem with marketing accountability has never been with how to measure the effectiveness of promotional expenditure, for this we have had for many years. No, the problem occurs because marketing isn't just a promotional activity. As was illustrated in Figure 1 earlier in the article in world class organisations where the customer is at the centre of the business model, marketing as a discipline is responsible for defining and understanding markets, for segmenting these markets, for developing value propositions to meet the researched needs of the customers in the segments, for getting buy-in from all those in the organisation responsible for delivering this value, for playing their own part in delivering this value and for monitoring whether the promised value is being delivered.

Indeed, this definition of marketing as a function for strategy development as well as for tactical sales delivery, when represented as a map, can be used to clarify the whole problem of how to measure marketing effectiveness.

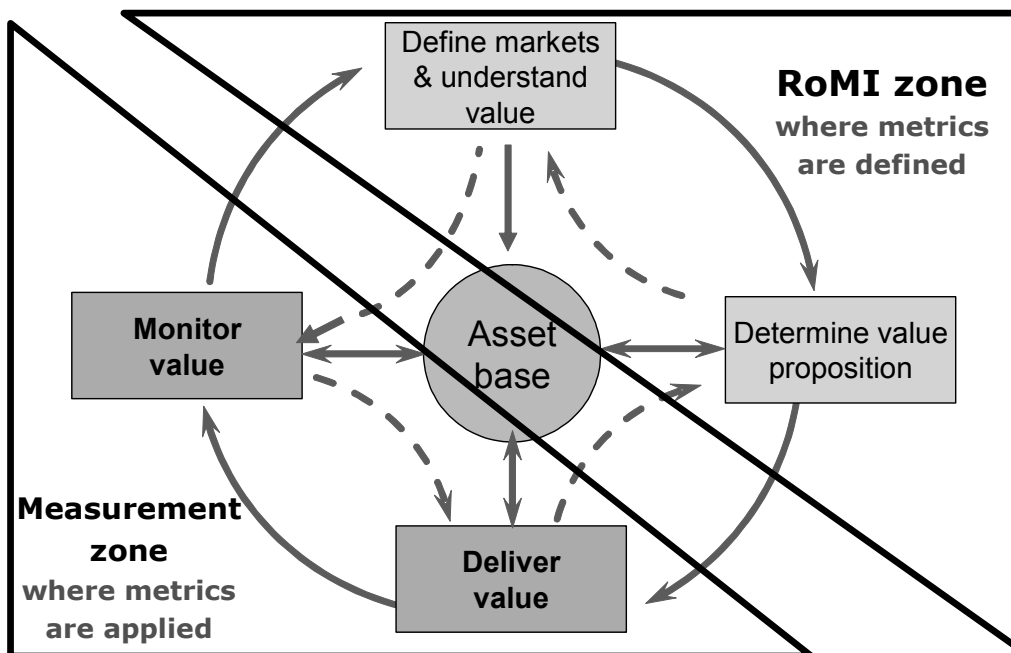


Figure 12. Map of the Marketing Domain with Metrics Superimposed

From the map (Figure 12), it can be seen that there are three levels of measurement, or metrics.

*Level 1* is the most vital of all three, because this is what determines whether or not the marketing strategies for the longer term (usually three to five years) destroy or create shareholder value added. In capital markets, success is measured in terms of shareholder value added, having taken account of the risks associated with the strategies set out in the strategic marketing plan, the time value of money and the cost of capital. This is a totally different measurement from outmoded accounting notions of profit.

It is justified to use the strategic marketing plan for assessing whether shareholder value is being created or destroyed because, as Sean Kelly agrees.

*"The Customer is simply the fulcrum of the business and everything from production to supply chain, to finance, risk management, personnel management and product development, all adapt to and converge on the business value proposition that is projected to the customer"*

Sean Kelly, 2005

Thus, corporate assets and their associated competences are only relevant if customer markets value them sufficiently highly that they lead to sustainable competitive advantage, or shareholder value added. This is our justification for evaluating the strategic plan for what is to be sold, to whom and with what projected effect on profits as a route to establishing whether shareholder value will be created or destroyed.

Once the hype and jargon is cleared away, all marketing plans say the same thing: "We're going to do these things in this market and make this much profit". Digging deeper, we can discern three fundamental assertions that lie at the root of all marketing plans:

The market we are going for is this big.  
Our strategy will achieve this much share  
That share will result in this much profit

It is these three assertions that give rise to the three components of business risk:

Market risk: the risk that the market is not as big as you think it will be.

Share risk: the risk that your strategy will not deliver the share it promises.

Profit Risk: the risk that you will not make the margins you promised.

It is comparatively easy to envisage how each of these can be broken down into sub components of risk, which can be assessed using the basic tools of marketing such as Ansoff's Matrix, product life cycle analysis, market segmentation robustness, offer specificity and so on.

Cumulatively, these three component risks add up to business risk. If all three are certain, then there is no risk and the plan will deliver what it

promises. To the extent that there is some uncertainty in one or more areas, the plan is risky and the promised returns must be higher to compensate for the risk. If we could objectively assess business risk, using data in a specific and systematic way, it would help us to create shareholder value in two ways. Firstly, it would allow us to identify the main areas of risk in our strategy and act to reduce that risk. Secondly, it would give us a tool to sell our strategy to investors, demonstrating in detail that our plan is well-thought out and creates shareholder value. The challenge lies in accurately assessing each of those three areas of risk.

The process for doing this has been labelled "Marketing Due Diligence" based on years of research at Cranfield School of Management. In short, Marketing Due Diligence is a process which assessed the probability of a marketing plan delivering its promises. It then adjusts the promised profit to reflect that probability and calculates if, for the firm's cost of capital, the plan would create or destroy shareholder value.

*Level 3* is the level of micro promotional measurement we have described above.

*Level 2.* There is another level, however, that few academics or practitioners have addressed to date. We shall describe it briefly here, although once the process of Marketing Due Diligence has been applied to the long range marketing strategy, it remains central to the issue of marketing metrics and marketing effectiveness. Further, however, let us destroy once and for all one of the great myths of measurement – marketing return on investment. This implies 'return' divided by 'investment' and, for marketing expenditure such as promotional spend, it is an intellectually puerile notion. It's a bit like demanding a financial justification for the wings of an aircraft! (See the points we make above). Also, as McGovern G et al say, (2004).

*"Measuring marketing performance isn't like measuring factory output – a fact that many non-marketing executives don't grasp. In the controlled environment of a manufacturing plant, it's simple to account for what goes in one end and what comes out the other and then determine productivity.*

*But the output of marketing can be measured only long after it has left the plant"*

Neither is the budget and all the energy employed in measuring it a proxy for measuring marketing effectiveness. Indeed, as Simon Caulkin says: (2005)

*"90% of USA and European firms think budgets are cumbersome and unreliable, providing neither predictability nor control".*

*They are backward-looking and inflexible. Instead of focussing managers' time on the customers, the real source of income, they focus their attention on satisfying the boss, ie. The budget becomes the purpose.*

*Cheating is endemic in all budget regimes. The result is fear,*

*inefficiency, sub optimisation and waste.*

*In companies like Enron, the pressure to make the numbers was so great that managers didn't just doctor a few numbers, they broke the law.*

*People with targets and jobs dependent on meeting them will probably meet the targets, even if they have to destroy the enterprise to do it"*

So, once the Marketing Due Diligence is completed, we can turn our attention to what needs to be measured in the one year plan.

Figure 13 shows the Ansoff Matrix. Each of the cells in each box (cells will consists of products for segments) are planning units, in the sense of objectives which are set for each for volume, value and profit for the first year of the strategic plan.

For each of the products for segment cells, having set objectives, the task is then to determine strategies for achieving them. These strategies, or Critical Success Factors (CSFs), will be weighted according to their relative importance to the customers in the segment.

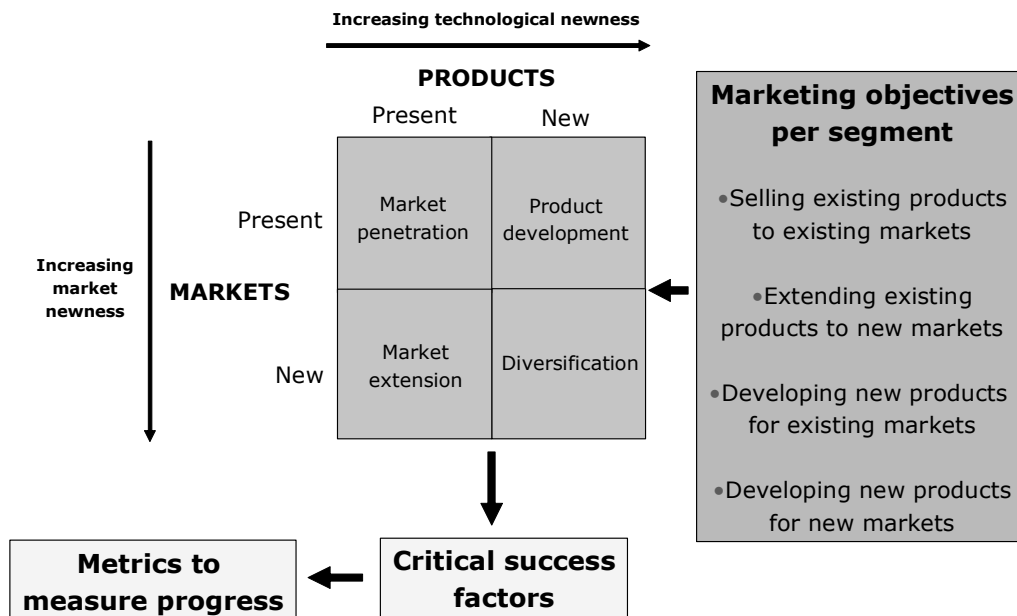


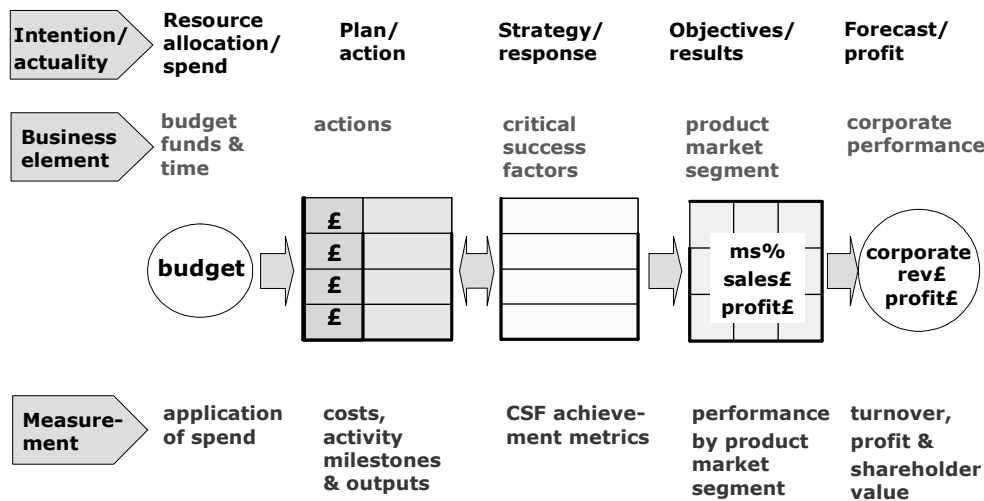
Figure 13. The Ansoff Matrix

Critical Success Factors	Weighting factor	Your organisation	Competitor A	Competitor B	Competitor C
CSF 1					
CSF 2					
CSF 3					
CSF 4					
<b>Total weighted score (score x weight)</b>	<b>100</b>				

• Strategies to improve competitive position/achieve objectives over time (4Ps)  
 • Metrics (each CSF) to measure performance over time in achieving goals

**Figure 14. Critical Success Factors**

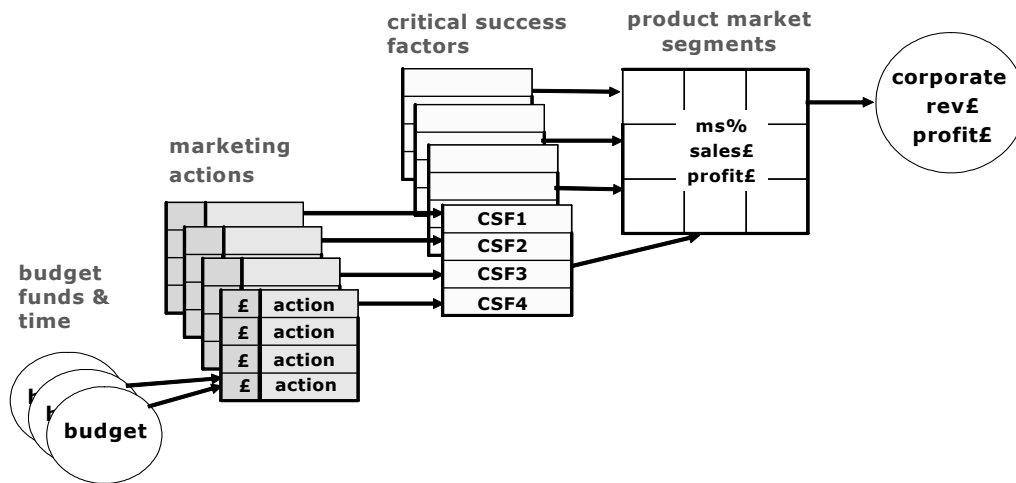
Figure 14 Critical Success Factors: In each segment, defined by the segment It is unlikely that the marketing function will be directly responsible for what needs to be done to improve a CSF. For example, issues like product efficacy, after sales service, channel management and sometimes even price and the sales force, are often controlled by other functions, so marketing needs to get buy-in from these functions to the need to improve the CSF scores. There will be other responses that will need to be measured such as productivity factors and hygiene factors, but to keep it simple, we have only shown customer based critical success factors here.



**Figure 15. The Link between Corporate Objectives and Marketing Actions**



Figure 15 shows another level of detail, ie. The actions that have to be taken, by whom and at what cost.



**Figure 16. An Expanded Model of the Link between Corporate Objectives and Actions**

Figure 16 shows how these actions multiply for each box of the Ansoff matrix

Thus, it can be seen how the expenditure on marketing and other functional actions to improve CSFs can be linked to marketing objectives and, ultimately, to profitability and it becomes clear exactly what must be measured and why. It also obviates the absurd assumption that a particular marketing action can be linked directly to profitability. It can only be linked to other weighted CSFs which, if improved, should lead to the achievement of volumes, value and, ultimately, profits.

We stress, however, that the corporate revenue and profits shown in the right of Figures 3 and 4 are not the same as shareholder value added, which takes account of the risks involved in the strategies, the time value of money and the cost of capital.

### **Conclusions**

Compliant marketing plans, in the sense of being theoretically sound, that do not make a measurable contribution to achieving an organisation's objectives, are really not worth all the effort in putting them together.

This section outlined three levels of marketing measurement, the most important of which is whether the plan achieves shareholder value, having taken account of the risks associated with the strategies outlined in the plan, the time value of money and the cost of capital.

## Summary

Strategic marketing planning, when sensibly institutionalized and driven by an organization's top management, can make a significant contribution to the creation of sustainable competitive advantage. It is, however, important to distinguish between the *process* of marketing planning and the *output*. Indeed, much of the benefit will accrue from the process of analysis and debate amongst relevant managers and directors rather than from the written document itself.

Ten guidelines were provided which have been shown to be significant contributors to determining an organization's competitiveness.

Finally, some processes were outlined for measuring the effectiveness of marketing planning for clearly, a theoretically – compliant plan that doesn't contribute measurably to an organisation's objectives cannot be worth the effort.

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### Further Reading

Brown, S. (1996) "Art or Science?: Fifty Years of Marketing Debate", *Journal of Marketing Management*, **12**, pp. 243–267.

This fascinating and highly readable paper discusses the eternal debate about whether marketing is more art than science. It is recommended here because readers should never lose sight of the need for strategic marketing plans and the process that produces them to be creative as well as diagnostic.

Leppard, J. and McDonald, M. (1987) "A Reappraisal of the Role of Marketing Planning", *Journal of Marketing Management*, **3**(2).

This paper throws quite a considerable amount of light onto why marketing planning is rarely done. It examines the organization's context in which marketing planning takes place and gives a fascinating insight into how corporate culture and politics often prevent the marketing concept from taking hold.

McDonald, M. (1996) "Strategic Marketing Planning: Theory; Practice; and Research Agendas", *Journal of Marketing Management*, **12**(1–3), pp. 5–27.

This paper summarizes the whole domain of marketing planning, from its early days to the current debate taking place about its contribution. It also explores forms of marketing planning other than the more rational/scientific one described in this chapter.

McDonald, M. (1999), *Marketing Plans: How to Prepare Them; How to Use Them*, 4th edn, Oxford: Butterworth-Heinemann

This book is the standard text on marketing planning in universities and organizations around the world. It is practical, as well as being based on sound theoretical concepts.

### **About the Author**

**Malcolm McDonald** was, until recently, Professor of Marketing and Deputy Director, Cranfield School of Management with special responsibility for E-Business. He is Chairman of six companies and spends much of his time working with the operating boards of the world's biggest multinational companies, such as IBM, Xerox, BP and the like, in most countries in the world, including Japan, USA, Europe, South America, ASEAN and Australasia.

He has written forty books, including the best seller "Marketing Plans; how to prepare them; how to use them" and many of his papers have been published.

His current interests centre around the use of information technology in advanced marketing processes and global best practice key account management.

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