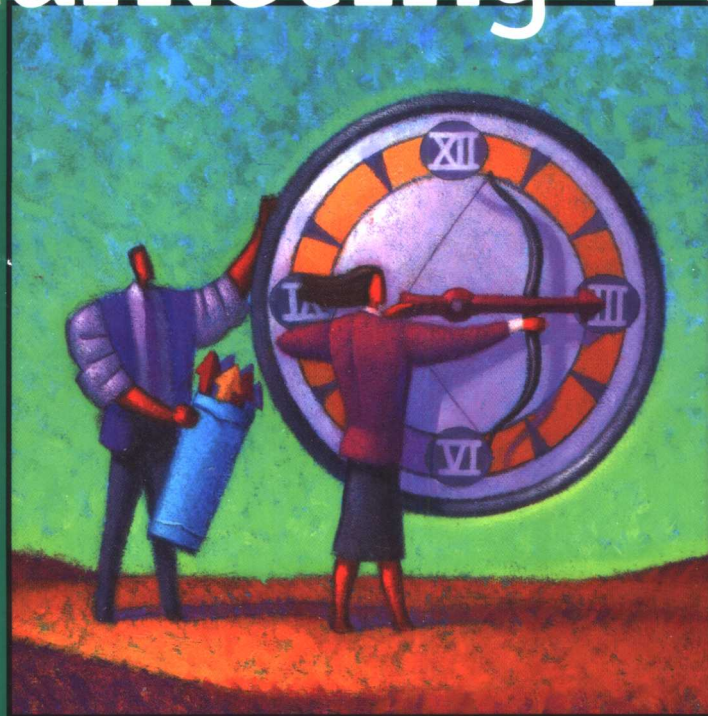


AMERICAN MARKETING ASSOCIATION

Auditing Markets, Products, and Marketing Plans



David Parmerlee

A M A M A R K E T I N G T O O L B O X

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This book is dedicated to those I left behind.

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Preface

Many marketing management books only define marketing and provide terminology definitions. The AMA Marketing Toolbox has a different purpose. This series will guide you in analyzing and articulating marketing data and applying it to real-world marketing actions. Definitions are included to form the basis for effective marketing management. The narrative aspects of these books describe the components of marketing processes. These books define the relationships between the processes and explain how they all work together. They also supply sample formats to help you create sophisticated marketing documents from your data.

A Systematic Process

Because markets change constantly and new marketing techniques appear all the time, a step-by-step system is needed to ensure accuracy. The books are process-based to allow you to be as thorough as possible in your marketing activities and document preparation. The books address marketing for the consumer package product, business-to-business, industrial manufacturing, and service worlds.

For Marketers

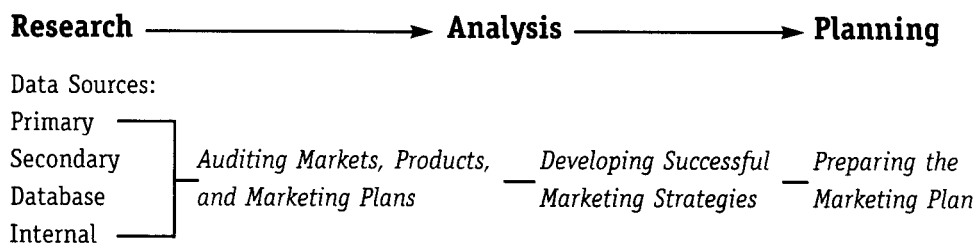
Although these books are written with a how-to theme, they are written for experienced marketers who know marketing terminology and understand the business function of marketing. The AMA Marketing Toolbox series consists of three books:

- *Auditing Markets, Products, and Marketing Plans*
- *Developing Successful Marketing Strategies*
- *Preparing the Marketing Plan*

Role of the Marketing Management Audit

How does the marketing management audit you will perform fit in with the other marketing processes? The marketing management audit is the first step in this series. It identifies the market in which you are or will be marketing your products, defines the products you are or will be marketing, and evaluates the effectiveness of the marketing actions you are or will be employing. It determines what, why, how, when, and where events and activities have or will be happening. This marketing tool helps you assess your strategic direction and how you will program your annual marketing plan actions.

The books in the AMA Marketing Toolbox series will help you evaluate the markets and the customers you serve, the products you offer, and methods in which those products are marketed. The following diagram indicates where the books fit into this process.



Introduction

What Is Marketing Management?

When one poses this question to various business executives, their replies are almost always broad or abstract. To underscore the various interpretations of this subject, ask ten business executives to describe how marketing as a business function contributes to their company's success and you will probably receive ten different answers.

This situation exists because marketing suffers from an identity crisis like no other business function. Accounting, manufacturing, or human resources, for example, all are considered to be fairly well defined; marketing, on the other hand, is not. The reasons for this situation are so numerous it would take another book to explain them. Instead, this book addresses this facet of marketing management by defining the established standards.

To produce and implement a pure balanced marketing plan, marketing management must be practiced by the organization or customers it serves. As businesses struggle to define what marketing is, they also need to devote their energies to defining how it should be organized around customers and products. Changes in technology, a diverse global economy, and sophisticated customers who are media savvy and demand more value are dictating that marketing management be a complete and strong aspect of a company's business practices. The marketing plan must reflect not only the plan for action in a given year, but also an approach to marketing that is not just a glorified sales plan or media-buying strategy. To survive and succeed in today's marketing landscape, companies must move from "power and control" to "empowerment and cooperation" of marketing individuals. New methods such as sales automation, integrated marketing, process-based marketing, or digital media access must be employed.

Marketing management is the *management of the process of developing marketing thoughts*. It is the ability to isolate, control, and program the function and functions of marketing. If it were not for the function of marketing, the capitalistic or free enterprise system would not exist as we know it. Thus, marketing is the activity that bridges the item of value for sale with the customer who wants or needs that item.

How Does the Audit Process Fit into Marketing Management?

It takes preparation to produce a marketing planning document (strategic or tactical) and to administer the actions and results profiled in that document. In the world of marketing, preparation translates into gaining accurate and timely data to make wise decisions.

A marketing audit, like an accounting audit, is an instrument to measure the value, risks, and effectiveness of your marketing efforts. Although it is considered to be a separate animal from traditional primary and secondary research, it augments those data collection efforts by focusing internally on recorded performances and on past and present views of the future.

How Often Should a Marketing Audit Be Performed?

The frequency and the degree of detail needed to generate the appropriate marketing information will vary. Some companies will perform a complete audit every year. Others will conduct an audit every four years, with modified versions used in between. Depending on the complexity of a given industry and the amount of growth or change it is experiencing, the timing of a marketing audit will differ. The key is to perform a complete audit (to form a solid baseline) in establishing your marketing approach, and then update that information as you feel it is warranted.

The Marketing Management Audit

How Does a Marketing Management Audit Work?

A marketing management audit consists of reviewing three fundamental elements:

- how you view and approach the markets you serve
- the value of the products you offer
- the effectiveness of the actions used to market those products

These three elements form the basis of a marketing management audit and the overall structure of this book. The following sections in the Introduction will explain how you can use the marketing audit to uncover the information you will need to shape your eventual marketing activities.

The Market Audit Element

A market audit is an attempt to define the structure of the environment in which a company operates—the marketplace. Its function is to collect information and organize it in a fashion that alerts you to marketing needs, problems, and opportunities. This information becomes a document that provides a detailed, accurate, and unbiased view of the marketplace.

Why Perform a Market Audit?

The purpose of performing a market audit is to find out what to expect from the marketplace you are currently in or are considering entering. It provides you with data on any barriers or limitations you might encounter in entering or expanding into a market so that you can determine what it will cost to exist or compete. It also tells you what the possible return will be; in other words, what the market is worth to you (market value) or what you can expect in terms of revenue generation (sales volume/earning potential). The market audit is the base from which you will develop strategies and tactics to achieve these returns.

A market audit builds the foundation for future marketing decisions. The golden rule in performing a market audit is that you must be objective and read the market as it actually is. This means the audit must not be structured around your product, service, or business. Though these may be mentioned as reference points, don't make them central to the audit. To do so could result in conclusions slanted toward your business, giving you an inaccurate picture of the market and defeating the purpose of the exercise. The audit is based on market research activities and must be completely independent from research on the performance of your product, service, or business.

The Product Audit Element

A product audit is an attempt to isolate and assess the worth of a particular thing you sell to generate income. Its function is to collect and analyze data in an accurate and unbiased manner to determine the value of your products to your company.

The product audit gives you a clearer understanding of your product line dynamics in a set format. It establishes why your products exist, how they contribute to the success of your company, and their impact on the marketplace. A product audit has to answer the following questions:

- What needs do your products meet or what problems do they solve?
- How profitable are your products? Which are strong or weak?
- How many products can you produce now and in the future? Will that meet demand?

- What possible legal actions do you face when marketing your products?
- What new products are you or should you be introducing?

Why Perform a Product Audit?

Like the market audit, the product audit tries to be as objective as possible: to “read” your products’ value or purpose as it actually is, with little or no interpretation. The audit should mention the markets targeted with these products or services only as reference points; to do otherwise could result in conclusions slanted toward your product or business, thus giving you an inaccurate picture of your product’s well-being and defeating the purpose of the exercise.

Think of a product audit as a player evaluation used to select a team to compete in a sporting event. Like a baseball manager, you have certain capabilities—your product offerings—that you believe will allow you to compete and win where the game is played—in the marketplace.

The chicken or the egg question—which comes first—always applies when you are determining market impact versus product impact. In this example, we are assuming that you will define and identify your market by performing a market audit prior to the product audit. The environment where you want to compete exists; you are now trying to determine how to select and use the players, your products. To do this, you must assess your products individually and collectively to determine their strengths and weaknesses.

First evaluate your product capabilities—their features and benefits. Then determine where they are in their life cycles. How many good years do they have left? Concurrently, you need to examine each product’s contribution to the “team’s” efforts. Some contribute more than others; this can be good or bad depending on the individual product’s role.

Next you need to evaluate each product’s past and future sales performance. If you have a “rookie player”—a new product—then you must predict its level of performance based on current conditions. As you perform this exercise, try to identify slumps and sales fluctuations to establish patterns. Then calculate how profitable your products are. With each product, you have made an investment and, as with any financial risk, you are spending money in the hope of making more money.

The next step is to determine production capacity for each product, the “team’s” ability, its resources, and your liability for each product.

Finally, you need to determine what new products will be coming on board through product acquisition and what products you have in the research and development pipeline. How will new products help your product line?

Like a pro baseball team, your product line is the way you win, through sales volume and revenues. To win the game, you must identify and cultivate “players” who can perform consistently and produce a solid return for your investment.

The Marketing Actions Element

A marketing actions audit is an attempt to evaluate the mechanism of the internal management of your marketing activities. Like its relatives, the market audit and the product audit, the marketing actions audit collects and analyzes data to arrive at results that are detailed, accurate, and unbiased.

The marketing actions audit gives you a clearer understanding of your marketing department in a set format. It assesses how effective you have been at setting and achieving sales, revenue, market share, and profitability goals. It examines your level of efficiency in marketing your products by the activities you have used, the cost of marketing, and the control procedures used in your marketing operations and organization.

As with the other two audits, you need to perform the marketing actions audit as objectively as possible, examining how your marketing operations are performed, with little or no interpretation. The audit should mention the market and products or services only as reference points; to do otherwise could result in conclusions slanted toward your marketing actions, thus giving you an inaccurate picture of your marketing management and defeating the purpose of the exercise. The market audit (where you will be marketing) and the product audit (what you will be marketing) should have already been completed. The marketing actions audit (how you will be marketing your products to the market) will link the market audit and the product audit together to give you a total picture of where you stand.

The Role of the Marketing Audit

The marketing audit tells a story about the marketing of your product offerings to the marketplace. It explains what, why, how, when, and where events and activities happen. The marketing audit tells you if your sales and revenue forecasting have been accurate and whether they have produced sufficient growth to cover your costs and generate suitable financial earnings. It also measures how you are approaching your marketing efforts. A marketing audit should be performed every three to five years on the average. If your products have a short life span (e.g., high-tech products) and you are constantly introducing and terminating products, you should probably perform a marketing audit each year. The marketing audit is the first section in a strategic marketing plan, which is performed every three to five years, compared with a marketing plan, which is performed every year. A marketing audit would not be appropriate for a new business; a business plan would be a better alternative.

Reporting the Findings

Once the audits have been completed, you will need to document your findings. In preparing your report for the next step (marketing analysis and planning), be sure to include the following elements:

- title page or cover page
- table of contents
- executive summary (purpose of the analysis and major findings)
- methodology
- limitations
- market analysis (body of report)
- exhibits

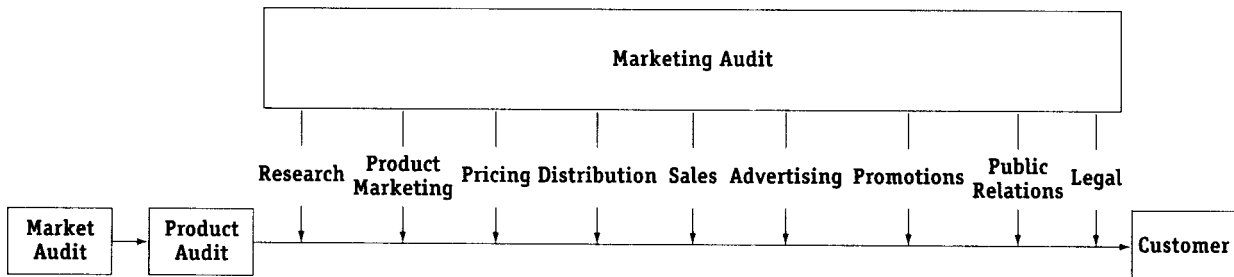
How Should This Book Be Used?

This book provides you with a set of audit formats to help you prepare a document that presents marketing research data in an organized manner. Throughout this book, you will be alerted to adjustments you may need to make in the audit. To conserve space, each format shows a limited number of lines for products, whereas your firm may have fewer or many more products to consider. Some formats call for sales of a product for the past three years, but if your product is new, you will have no sales to date, making the current market share analysis impossible.

The processes and formats in this book are designed for the consumer package product industry; however, when a specific issue requires a separate and clear definition, other industries (industrial manufacturing/business-to-business and service) will be profiled.

Exhibit 1 profiles how these three audits work together.

Exhibit 1 Audit Overview

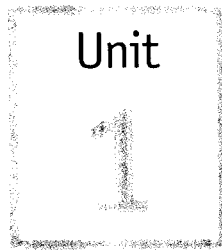


The marketing management audit begins with the market audit and is followed by the product and marketing audits. Follow the first three units in the book to reach completion.

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Identifying the Primary Marketplace

The first step in conducting a marketing management audit is to review the market in which your business operates. To accomplish this, you need to dissect the elements that form the structure of a marketplace. This begins with the element known as *market definition*, which entails interpreting how you view the types of customers you are targeting. This effort establishes the foundation from which you will assess the resources and thought processes needed to market your products successfully.

Market Definition (by Industry Type)

In defining your markets, you are putting a face on the market as it exists today. This is the one place where you are afforded the opportunity to view the market in a subjective manner. This is because you need to decide on the size, complexity, and strength of a market you are willing and able to pursue. After this exercise, every element that goes into forming each one of these markets will need to be completed in a more objective manner.

You have two options to select from in defining a market:

- mass market
- markets divided into segments

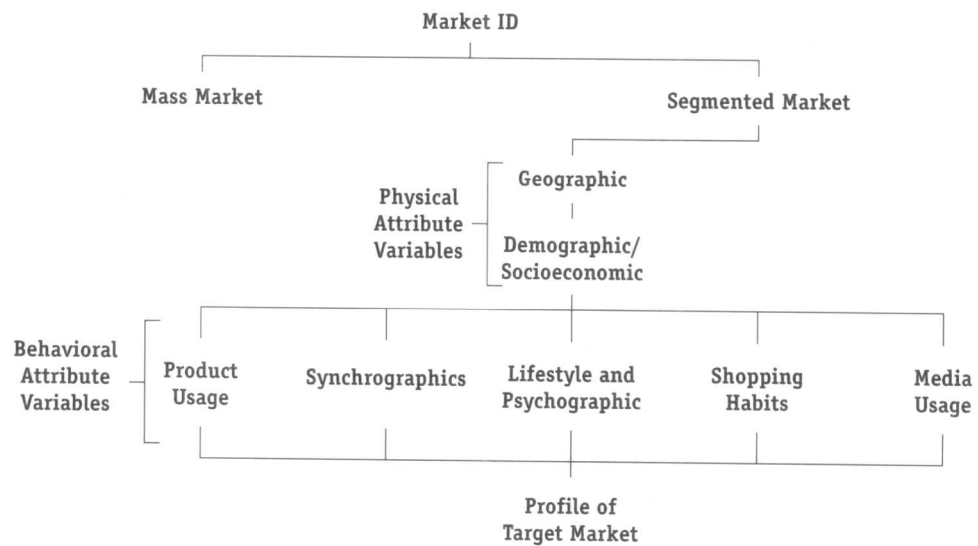
Limiting yourself to selected market segments to gain more control in those segments is usually most effective. Market segmentation begins with marketing research. Before you can segment your market, you must understand customer preferences, motivations, purchase intentions, and usage patterns to establish linkages and verify the market profiles you select.

Depending on the industry you serve, market segmentation and variables that are used to define customer attributes (characteristics) drive how you will determine which customers are available. Although other variables should be considered, such as customer profitability, customer status (new, current, or former), and customer relationship (life cycle marketing), you may want to include these variables as part of your market segmentation/target marketing efforts.

If you serve the consumer package product (CPP) or service industries, Exhibit 1-1 illustrates the steps in selecting variables to define your market. In these markets, you will use geographic, demographic/socioeconomic, product usage, lifestyle/psychographic, synchrographics, shopping habits, and media usage variables. Service industries vary greatly, so you may need to modify this model.

Exhibit 1-1

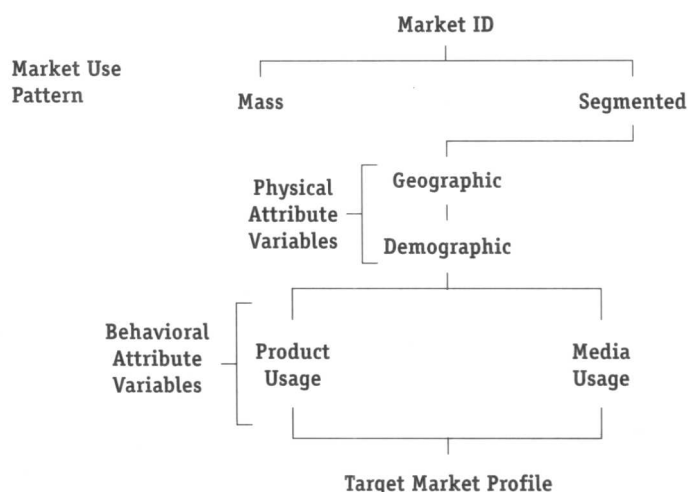
Market Identification Model



If you serve the industrial manufacturing or business-to-business (IMB) industry, Exhibit 1-2 illustrates the steps in selecting variables to define your market. In this market, you will use geographic, demographic, product usage, and media usage variables.

Exhibit 1-2

Market Identification Model



With both industry-specific models, you can select a type or combine several types of variables to form your market segment profiles.

Exhibit 1-3

Market Identification Process

1. Select market use patterns.
 - a. Mass (If selected, skip to "Market Size Determination," page 19.)
 - b. Segmented
2. Identify segment markets.
 - a. Select variables.
 - b. Establish profile segments.
3. Define target markets.
 - a. Evaluate profile segments' attractiveness.
 - b. Select/prioritize profile segments.

Once you select your markets, it is helpful to provide titles, or IDs, to each market you have targeted—for example, the U.S. home consumer electronics market. This will force you to truly define and establish (in terms of scope and purpose) the market or markets you will be committing your product and marketing resources to capture.

Market Segmentation and Your Target Markets

Identifying your market segments is called *target marketing*. The secret is to find a market where you can be a dominant player or at least a major player. To do this, you must establish criteria to penetrate and compete effectively in those target markets. The segmentation profile is made up of one or more physical or behavioral variables that must be prioritized.

You may need to go through the market segmentation process several times to determine which market definition works best for you. The key to the whole process is the geographic location(s) of your market. As discussed, you must perform market research before you begin the entire market audit process. That research will help you identify, define, and analyze potential customers for your product or for similar products in the selected market. The objective is to take that research data and match it with variables in the segmentation process so that you can see which geographic area has the highest number of potential customers.

Geographic Variables

You will almost always need to set physical boundaries for your market. This is done by selecting one geographic level or combining several, depending on your particular market. Geographic variables should be determined separately for each product line or individual product, if necessary.

To complete the table in Format 1, you must first select the level of the geographic area you choose to study. To give that level an identity, you need to call it by name (i.e., Census Tract 7301.03). You should identify not only the level you select, but several levels above it. This will give you a better point of reference and help you select the area(s) with which you wish to compare your target market. You will need to perform this audit for each product or product line you are considering.

In the CPP or service industry, all geographic levels are available for market definition. In the IMB industry, your geographic levels will be more limited because customers are fewer in number and cover a larger geographic area.

Format 1 displays the geographic levels available. They are based on the geographic levels established by the U.S. Bureau of the Census. Many research and database sources recognize these geographic levels as well as other “media-based” (e.g., ADI, zip codes, etc.) geographic levels. You may want to include these media-based levels as subgeographic levels so that you will have an equivalent basis of measurement when examining existing research data.

Demographic/Socioeconomic Variables

After you decide the physical area of your markets, you need to profile the possible customers in those areas. This is done by inserting the demographic/socioeconomic data (DSD) for those areas. With CPP and service industries, DSD