

D.1 Ethical Evaluation

RESPONSIBILITIES OF MARKETERS

In solving problems, marketers use decision-making criteria to develop and evaluate alternative decisions. Before they are adopted as a course of action, potential solutions are tested as part of the evaluation process to determine their profitability (see GLOSSARY entry D.5 on **projecting outcomes**) and are evaluated to determine their legality (see GLOSSARY entry D.2). If they fail to meet the tests of profitability and legality, the decision alternatives are rejected.

In addition to testing the profitability and legality of proposed decisions, they should also be evaluated to determine whether or not they meet ethical standards. **Ethical decisions** are ones that follow a morally and socially responsible course of action. Determining whether or not a decision meets ethical standards is an element in the final stage of the **marketing planning process** during which outcomes of programs and decisions are evaluated (see GLOSSARY entry Chapter 4).

Social Responsibility of the Firm. The **social responsibility of the firm** is the rationale for the existence of a business and is often stated as a part of the firm's mission statement. Social responsibility defines the desired outcome of action by the firm. Spratlen suggests that social responsibility is (1) a normative concept of social values and (2) a basis for evaluating how the firm's resources should be utilized; (3) it provides criteria for evaluating alternative courses of action.¹

The social responsibility of the firm is closely linked to ethical decision making. A firm's sense of its social responsibility is one

source of standards for evaluating the ethics of a decision. To be ethical, a decision must contribute to a firm's fulfillment of its social responsibilities. Social responsibilities are particularly germane to marketers. Most of a firm's social responsibilities are to groups outside the firm (consumers, for example) and marketers are the primary interface between the firm and outside groups. Thus the social responsibility of the firm has a particularly close relationship to marketing ethics.

What is the social responsibility of a business firm? The earliest concept, rooted in classical economic theory, was that the firm's responsibility is solely to maximize profits and that by serving that self-interest, the welfare of others will be equitably served through the "invisible hand" of the competitive marketplace. Another unidimensional view of the social responsibility of the firm is that of the **marketing concept** that holds that the welfare of the firm is best served by focusing all efforts of the organization on satisfying consumer needs (see GLOSSARY entry A.9).

Some marketers still hold to these narrow views of the social responsibility of the firm. Levitt, for example, suggests

Business will have a much better chance of surviving if there is no nonsense about its goals—that is, if long-run profit maximization is the one dominant objective in practice as well as in theory.²

However, modern marketing thought takes a broader view of the social responsibility of the firm. Beginning in the 1950s, due in part to the rise of consumerism and later with the emergence of environmentalism and concern for minority rights, many marketers came to hold a broader view of

¹Thaddeus H. Spratlen, "Marketing: A Social Responsibility," *AMA Combined Proceedings*, Series No. 34, (New York: American Management Association, 1973), pp. 65-75.

²Theodore Levitt, "The Dangers of Social Responsibility," *Harvard Business Review* (September-October 1958), p. 49.

the responsibility of the firm. These movements suggested that in addition to responsibility for its own survival, the firm had a responsibility toward various other groups and values. A task of the firm is to reconcile, in its decision making, the oftentimes competitive needs of meeting an array of responsibilities. This multidimensional view of social responsibility is the one most widely held by marketers today.

What are some of the groups and values toward which the firm has social responsibility? While each firm must define its own values, the list of responsibility areas given below suggests dimensions to be considered.³

- *Responsibility to the Firm.* A most basic responsibility of the firm is to its own survival. For most firms, this means that the firm must make a profit so that a return can be paid to the contributors of capital. Failure to earn a profit means that capital will be withdrawn from the firm and that the firm will fail. Making a profit and surviving are basic responsibilities because failure to do so means that the firm cannot meet any of its other responsibilities. If the firm fails, it cannot pay employees, satisfy consumer needs, and contribute to its community. It should not be assumed that a firm's profitability and survival are in conflict with other responsibilities. While in some cases they may be, many marketers believe that the long-run survival of the firm depends upon its meeting its responsibilities to members of society other than itself.
- *Responsibility to Employees.* One of the positive social contributions of the firm is providing employment to its members. By providing employment, the firm enables members to enjoy a better standard of living. However, most firms see social responsibility toward employees as extending beyond wages. Well-run firms offer jobs with a chance for advancement and an opportunity to contribute to society, both giving members a sense of personal fulfillment. Responsibility to employees may also mean sharing of profits, good working conditions, and nondiscrimination toward minorities or toward either sex.
- *Responsibility to Consumers.* The **marketing concept** suggests that success of the firm requires that the organization direct its efforts toward satisfying consumer needs. While it is not the only responsibility of the firm, adoption of the marketing concept is certainly consistent with meeting responsibilities toward consumers. Implementation of the marketing concept is far more complex than the simple statement seems to imply. Social responsibility toward consumers means far more than making a product that meets consumer needs. It also means that the product must be safe, that it not cater to baser instincts, that it be provided in satisfying variety, that it be fairly priced, that it be conveniently distributed, that its attributes be fully and fairly communicated, that it not despoil the environment, and so on. Also at the heart of the responsibility to consumers is providing two-way information flow so that consumers receive information about the company's products and that the company hear the consumers' needs, problems, reactions to products, complaints, frustrations, and suggestions.
- *Responsibility to Other Firms.* The socially responsible firm acts with fairness toward suppliers, channel members, and competitive firms. Fairness toward suppliers means adhering to announced purchasing standards, not using coercive tactics with less powerful firms, communicating openly and honestly, avoiding bribery or kickbacks, and not extracting speculative work with no intention of awarding orders.
Responsible behavior toward channel members means avoiding coercion to gain desired behavior and paying fairly for work performed. It is more socially responsible to gain cooperation from channel members by offering incentives and programs that will enhance the channel members business as well as the suppliers (see GLOSSARY entry C.6).
Responsible behavior toward competitors does not mean not trying to gain competitive advantage and gain market from competitors. It does mean that the tactics used in doing that should be fair. Responsible competitive behavior does not mean using bribery, discriminatory pricing, disparagement or damaging of competitive products or facilities, or any other such irresponsible action.
- *Responsibility to the Community.* Many firms feel a responsibility toward the communities where they are located and where the firm's

³The list given below is based on David T. Kollat, Roger D. Blackwell, and James F. Robeson, *Strategic Marketing* (New York: Holt, Rinehart & Winston, 1972), pp. 508-13.

employees live. One special responsibility is creating a pleasant and healthful environment in the community. This certainly includes dealing with any pollution or health hazard associated with the firm and its products. In addition, many firms feel a responsibility to contribute, both time and money, to civic activities and civic improvements.

What Are Marketing Ethics? Ethics are more personal and more fundamental than social responsibility, although the two are related. Ethics provide a framework or a set of guidelines for determining a morally right course of action. Marketing ethics, then, are standards by which a marketer can determine whether or not a marketing decision is morally right.

Marketing ethics provide marketers with additional dimensions for evaluating the outcome of a decision. Marketers check the outcome of a decision to see if it will be profitable by calculating the financial outcome. They evaluate the legal outcome of a decision by comparing the decision to the applicable law. Marketing ethics permit the marketer to evaluate the moral outcome of a decision and decide whether it will result in benefit to the society.

ETHICAL STANDARDS FOR MARKETING DECISIONS

If ethics provide a framework for evaluating the moral outcome of a decision, where can marketers look to find standards of morally acceptable marketing behavior?

Sources of Ethical Standards. Lacznia and Clasen are two marketers who have looked in very different areas for guidance on what constitutes ethical marketing behavior. Lacznia studied the works of three moral philosophers, seeking to find a list of ethical responsibilities by which actions could be evaluated.⁴

- **Ethical Duties.** In his theory of moral philosophy, William David Ross proposes six duties that constitute moral obligations. They are (1) a duty to be truthful, (2) a duty to respect obligations between friends, partners, and others with a close relationship, (3) a duty to reward others fairly, (4) a duty to help other people, (5) a duty to improve one's own condition, and (6) a duty not to injure others.
- **Ethical Decisions.** A framework for evaluating decisions proposed by Garrett suggests that ethical decisions have three dimensions that must be examined. The three dimensions are (1) intention, the motivation behind the decision; (2) means, the process used to bring about the intention; and (3) ends, the consequences of employing the means. Garrett holds that the three dimensions must be kept in proportion if a decision is to be ethical. If the intention is evil, neither the means nor the end is justified. If the means would result in evil side effects and they are not offset by proportionate benefits, the decision is unethical. If there are alternative means that would provide more benefits, the decision is unethical.
- **Social Justice.** John Rawls' ethical system attempts to maximize the rewards of those most socially disadvantaged. Social justice is realized by applying two principles: (1) The liberty principle states that each person should have the maximum right and opportunity for liberty that is compatible with the functioning of society, and (2) the difference principle holds that social and economic inequality should be tolerated only if the result would benefit all or benefit the most disadvantaged. Under these two principles, decisions would be ethical if they enhanced the liberties of people and if they did not result in the disadvantaged being worse off.

Earl Clasen, then a marketing executive with The Pillsbury Company, took a quite different approach to seeking ethical standards by looking within the firm's practice of marketing to determine the sources from which ethical judgments were made.⁵ The sources that he detailed can be converted into standards for evaluating the ethics of a decision. The sources were these.

⁴The description that follows is from Gene R. Lacznia, "Frameworks for Analyzing Marketing Ethics," *Journal of Macromarketing* (Spring 1983), pp. 7-18.

⁵The description that follows is from Earl A. Clasen, "Marketing Ethics and the Consumer," *Harvard Business Review* (January-February 1967), pp. 79-86.

- *Personal Conscience.* One source of ethical judgments is the decision maker's personal conscience as formed through association with family and the culture. A decision is not ethical if it does not meet the personal moral standards of the decision maker.
- *Law and Policy.* The law and corporate policy provide significant guidance in evaluating marketing decisions. Where the decision clearly violates law or policy, it is unacceptable. However, when the law or policy is subject to interpretation, a further source of ethical guidance is needed.
- *Organization Structure.* The organization structure serves as a source of ethical guidance by allowing the evaluation of the ethics of a decision to be pushed up in the organization to the general management level. This takes the decision away from the line manager who is under short-term pressures and allows more objective consideration of ethical issues.
- *Professional Knowledge.* Business and technical knowledge gained on the job gives marketers insights into when a decision will result in harm to others before the harm occurs or when the harm would be unknown to others. Marketers are responsible for using their professional expertise to anticipate the outcome of their decisions and change them if they foresee outcomes that are a detriment to society. Marketers are responsible for using the best technical expertise of the firm to assure that products meet quality standards and that the consumers' interests are served.
- *Consumer Wants.* Ethical decisions are ones that result from full, free communication between buyer and seller. While it cannot be used as the only criterion, consumer acceptance is a major source of ethical standards.

Ethical Evaluation of Marketing Decisions.

It is clear from looking at the ethical standards developed by both philosophers and business people that each decision must be looked at individually to determine if it is ethically acceptable. The ethics of a decision will depend upon the problem situation and the outcome anticipated. What will be viewed as an ethical decision will also vary by the individual and by the business organization.

What is needed, then, is not a list of ethical and unethical decisions, but a set of

questions to ask that will help the marketer to determine whether or not a decision meets the decision-maker's ethical standards. A set of marketing standards, drawing on the suggestions by Laczniaak and Clasen and the standards of social responsibility discussed earlier, is presented below. These ethical standards, in the form of questions, can be used to evaluate the ethics of a decision by pointing out areas where judgments of right or wrong must be made.

- *Is the Decision Illegal?* If it is illegal, it is per se **unethical** as well. Is its legality borderline? Does this suggest that the decision may be unethical?
- *Does the Decision Violate the Standards of the Firm?* Does the decision contradict company policy? Does the company have a code of ethics? Does the decision violate it? Is the decision contrary to the company's strategy? to its special competence? to its social mission? Should evaluation of the decision be moved up to a higher level for evaluation by less involved managers?
- *Will the Decision Affect Survival of the Firm?* Could the firm survive without the action under consideration? Will the action contribute to the survival of the firm? Will the decision result in increased profits? Will the decision improve the firm's competitive position? Will the decision affect the welfare of the firm's employees?
- *Will the Decision Contribute to Meeting Consumer Needs?* Was consumer communication sought in making the decision? Will the decision result in meeting consumer needs better? Will benefits to consumers be improved? Will the decision result in safer products for consumers? Will the decision result in fuller, more honest communication with consumers? Has the decision utilized the firm's best technical and professional evidence on behalf of the consumers' welfare?
- *Will the Decision Contribute to a Better Society?* Will the decision infringe on the freedom of any group in society? Will the decision result in any group being disadvantaged? Are they already relatively disadvantaged? Does the decision discriminate against minority groups? Will the decision harm the environment? Will the decision detract from the community?
- *Are the Means in Proportion to the Ends?* Is the intent of the decision beneficial? Is the objec-

tive of the decision important? Will the means of implementing the decision have damaging side effects? Do the damaging side effects outweigh the benefits? Are there alternative ways of solving the problem? Would they be less damaging?

- *Does the Decision Meet My Personal Standards?* Is it honest? Is the decision based on objective use of the facts? Were contradictory facts or knowledge deliberately omitted? Was coercion used to gain agreement? Will the outcome be fair to all involved? Will the outcome result in injury to anyone? Will the decision contribute to a better society?

SUGGESTIONS FOR FURTHER READING

- CLASEN, EARL A. "Marketing Ethics and the Consumer." *Harvard Business Review* (January-February 1967), pp. 79-86.
- LACZNIAK, GENE R. "Frameworks for Analyzing Marketing Ethics." *Journal of Macromarketing* (Spring 1983), pp. 7-18.
- SPRATLEN, THADDEUS H. "Marketing: A Social Responsibility." *AMA Combined Proceedings*, Series No. 34. New York: American Management Association, 1973, pp. 65-75.

D.2 Legal Requirements

D.2

REGULATION OF MARKETING ACTIVITIES

Marketing decisions are subject to regulation from federal, state, and local authorities, but for other than locally marketed products, federal regulation, the focus in this entry, is the most important.

Legal Considerations in Marketing Decision Making. Although the intensity of enforcement varies with the philosophy of national administrations, regulation of marketing is far reaching. There is no decision-making area in marketing for which there are not some legal considerations.

How should legal requirements enter into marketing decision making? Legal and regulatory requirements can be considered as part of the **environmental variables**. Under this approach, legal and regulatory constraints are treated as uncontrollable factors to which marketing decisions must be adjusted. Decision-making response to environmental variables is considered in GLOSSARY entry A.4. An alternative approach, the one presented in this entry, is to treat legal adherence as part of the process of evaluating decisions and programs. Legal requirements become criteria against which marketing decisions must be compared. This

evaluation process is a part of the fourth step in the **marketing planning process** that is called **projecting outcomes** (see GLOSSARY entry Chapter 4).

If legal requirements are treated as part of the outcome evaluation system for marketing decision making, the evaluation criteria must be applied before the final decision is made so that the outcome will meet legal requirements. What is the marketer's responsibility for assuring the legality of marketing decisions? It is unreasonable to suppose that marketers will know the legal complexities of all laws that apply to marketing decisions. However, marketers should feel responsible for taking two actions:

1. In making marketing decisions, marketers should always consider as one of the decision-making criteria the question, "What are the legal requirements of this decision?"
2. Although marketers may not know the complexity of all laws and regulations affecting marketing decisions, they should feel responsible for knowing the areas in which regulations apply and the kinds of decisions that are legally sensitive. This kind of knowledge directs the marketer toward use of legal counsel when legally vulnerable decisions are being made.

The purpose of this entry is to outline marketing decision areas in which legal problems commonly arise. Awareness of these potential problem areas is an essential step in assuring legal and regulatory compliance of marketing decisions.

Sources of Marketing Regulation. More than a dozen major federal legislative acts affect marketing decision making and many more minor ones. The earliest regulation focused on prohibition of unfair methods of competition while later regulation has tended to focus on protection of the consumer and the environment. Figure D.2-1 lists some of the more important legislation that influences marketing decision making.

The two governmental bodies most concerned with enforcement of laws affecting marketers are the Department of Justice and the Federal Trade Commission (FTC). The Department of Justice, through its Antitrust Division, enforces the antitrust provisions of the Sherman Act and the Clayton Act. While the FTC shares responsibility for enforcing antitrust laws, only the Justice Department can initiate criminal antitrust cases. Justice Department cases are tried in the federal district court, although negotiated settlements

often end with consent decrees. The Department of Justice also provides, upon request, advisory opinions on the legality of a proposed action. These advisory opinions are most often requested when a business is considering a merger or acquisition.

The **Federal Trade Commission**, created by the Federal Trade Commission Act of 1914, is an independent regulatory agency with members appointed by the president and approved by the Senate. The FTC's enforcement responsibility is broader than that of the Justice Department with which it shares power to enforce antitrust laws. In addition, the FTC is charged with enforcing laws against unfair methods of competition and deceptive or unfair practices as well as several consumer protection laws. The FTC also has the power, although it has recently been restricted, to issue Trade Regulation Rules (TRRs) that provide guidance to practice in a particular industry. Like the Justice Department, the FTC will also issue advisory opinions on proposed practices. Cases brought by the FTC are initially tried before the FTC's own administrative law judges. They can be appealed to the full FTC and from there, through the circuit court of appeals.

FIGURE D.2-1

Major Federal Legislation Affecting Marketing

<i>Law</i>	<i>Area of Regulation</i>
Sherman Antitrust Act (1890)	Monopoly, restraint of trade
Food and Drug Act (1906)	Adulterated food, labeling
Clayton Act (1914)	Extended Sherman Act
Federal Trade Comm. Act (1914)	Established FTC, authority to act against unfair competition
Robinson-Patman Act (1936)	Price discrimination
Miller-Tydings Act (1937)	Legalized resale price maintenance
Wheeler-Lea Amendment (1938)	Deceptive/unfair advertising
Antimerger Act (1950)	Corporate acquisitions
Fair Packaging & Labeling Act (1966)	Consumer goods packaging and labeling
Consumer Product Safety Act (1972)	Established Cons. Pdt. Safety Comm., authorized setting product safety standards
Magnuson-Moss Act (1975)	Expands FTC powers, regulates warranties, authorizes Trade Regulation Rules
FTC Improvement Act (1980)	Limits application of fairness doctrine and Trade Regulation Rules

FIGURE D.2-2

Federal Regulatory Agencies Important to Marketers

Regulatory Agency	Area of Enforcement
Justice Department	Antitrust
Federal Trade Commission	Antitrust, deceptive/unfair practices, advertising
Consumer Product Safety Comm.	Consumer product safety
Bureau of Alcohol, Tobacco & Firearms	Alcohol, tobacco, firearms
Federal Communications Comm.	Radio, television
Environmental Protection Agency	Environmental protection
Food & Drug Administration	Food, drug safety, labeling

In addition to the Department of Justice and the FTC, numerous other agencies have enforcement powers in marketing matters. Figure D.2-2 lists some of those agencies.

LEGAL REQUIREMENTS IN MARKETING DECISION MAKING

It was suggested earlier that in evaluating marketing decisions marketers must ask, "What are the legal requirements of this decision?" The purpose of this section is to alert the marketer to decision areas in which legal requirements are likely to be important.

Limitations on Mergers and Acquisitions. As an outgrowth of the **strategic market planning process**, businesses set growth goals that are to be met by the current portfolio of products or through addition of new products (see GLOSSARY entry A.20). New products can be added by internal **new product development** or acquisition. Decisions to add products through acquisition or merger are legally sensitive.

Under the Clayton Act, as amended in 1970, acquisitions, whether by transfer of stock or by purchase of assets, are prohibited if the effect would be to substantially lessen competition. The meaning of "substantially lessen competition" has been developed in the courts, especially the Supreme Court, through precedents set in case decisions and

from the Justice Department and the FTC through their enforcement guidelines. Acquisition enforcement and interpretation tend to vary with the makeup of the Supreme Court and the philosophy of the administration in power. In recent years, in part reflecting the international competitive problems of U.S. industry, merger and acquisition policy has been less restrictive.

Determining if an acquisition or merger would substantially lessen competition begins with definition of the relevant market for the product. Conceptually, the market is defined as including products that are reasonable substitutes for one another within some defined geographic area. In practice, defining the relevant market is highly contentious and has a large impact on the next step. The next step is to determine if the merger or acquisition would result in substantially lessened competition in the defined market. The most important measure in judging lessened competition is the change in the concentration ratio, the share of market controlled by the top firms.

If a merger or acquisition fails to pass the test of substantially lessening competition, it may still be legally permissible or not challenged under three conditions.¹

- **Failing Firm.** If the firm being acquired is so weak that it is unlikely to survive alone, a

¹Louis W. Stern and Thomas L. Eovaldi, *Legal Aspects of Marketing Strategy* (Englewood Cliffs, N.J.: Prentice Hall, 1984), pp. 172-74.

merger or acquisition may be permitted, even if it results in an otherwise unacceptable increase in market concentration.

- *Market "Toehold."* If an outside firm acquires a small firm in an already concentrated market, the acquisition may be acceptable if the acquired firm becomes a more effective competitor of the large firms already in the market through the strength of the acquiring firm. Large firms sometimes attempt to gain a "toehold" in a new market through this approach.
- *Merger Efficiencies.* A merger may meet less opposition if, in spite of increased concentration, the result will be an increase in the efficiency of the combined firm. The importance of this defense of mergers has increased with the competitive problems of U.S. industry with foreign firms.

Product Liability and Product Decisions. **Product liability**, under which manufacturers are financially responsible for injuries to consumers because of defective products, has rapidly become one of the most serious legal problems confronting marketing decision makers. Product liability should normally be considered as part of the **product design** decision (see GLOSSARY entry C.25) although it is often involved in promotion decisions as well.

In the early years of our economy's development, manufacturers were insulated from product liability responsibility by the concept of **privity of contract** that held that an injured consumer could bring suit only against the person or firm from which the product was directly purchased.² In most cases, this was the retailer. This concept was first overturned in 1916 when an automobile manufacturer was held responsible for consumer injury caused by negligence in manufacture. Another dramatic increase in manufacturer product liability began in the early 1960s when courts began applying the concept of **strict liability** to product liability cases.³ Under strict liability, a manufacturer

is held liable for injuries caused by a defective product without the need to prove negligence in manufacture. These changes in the application of law, together with a tendency for courts to shift liability to those better able to pay for it, a greater tendency of consumers to seek redress of injuries through the courts, and more direct promotional interaction between manufacturers and consumers have all resulted in a shift in product liability to the manufacturer.

Today there are four approaches under which a consumer can bring a product liability action against a manufacturer.⁴

- *Negligence.* Product liability action can be successfully brought against manufacturers by consumers if they can show that reasonable care was not used in manufacture of the product. Negligence can extend beyond manufacture to promotion and distribution. For example, a label that fails to provide adequate warnings of product dangers can be held as negligent, and unreasonable reliance on dealers to perform safety checks on products before selling them could be negligence on the part of the manufacturer.
- *Breach of Warranty.* Warranty is the representation of product characteristics or the claims that the seller makes for the product. Warranties can be either expressed or implied. Explicit claims made to consumers, such as through advertisements, labels, or salespeople's statements, are expressed warranties. Implied warranties are the suggestion that the product can be safely used for the purpose for which it is sold. Consumers can bring action against manufacturers or other sellers of a product if the product does not perform according to the expressed or implied warranty.
- *Strict Liability.* Under strict liability, action can be brought against a product manufacturer if a product is defective, without the requirement to prove negligence. Strict liability applies to all forms of product, but in all cases it must be demonstrated that the product was defective. Under strict liability, manufacturers are held responsible for anticipating risks that

²Conrad Berenson, "The Product Liability Revolution," *Business Horizons* (October 1972), pp. 71-80.

³Lawrence A. Bennisson and Arnold I. Bennisson, "Product Liability: Manufacturer's Beware," *Harvard Business Review* (May-June 1974), pp. 122-32.

⁴This section based on Berenson, "The Product Liability Revolution," pp. 73-75; Bennisson, "Product Liability," p. 123; and Fred W. Morgan, "Marketing and Product Liability: A Review and Update," *Journal of Marketing* 46 (Summer 1982), pp. 69-78.

consumers may face in using products and guarding against them by product design or appropriate warnings.

- **Misrepresentation.** To bring suit under negligence, warranty, or strict liability requires that the product be defective. Under misrepresentation, if a consumer is injured because of reliance on a false representation of the product, manufacturers can be held liable even if the product itself is not defective. The misrepresentation might be through advertising or through the presentations of salespeople.

One other legal change that has increased marketers' concern with product safety was the passage in 1972 of the Consumer Product Safety Act. This act established the Consumer Product Safety Commission with power to establish and enforce consumer product safety standards. In addition to setting standards, the Commission can prohibit sale or force recall of defective products, conduct or require safety testing, and carry out other activities related to product safety.⁵

To cope with the increased danger of product liability, manufacturers should consider use of product liability insurance together with greater emphasis on design of safer products, manufacturing quality control, greater anticipation of consumer risk and use of warnings, and careful control of warranties expressed in promotional materials.⁶

Regulation of Advertising. Advertising is regulated at the federal, state and local levels. It is also subject to an approval process by the media in which it appears and subject to industry self-regulation by the National Advertising Review Board. While the advertiser must be responsive to all of these regulatory groups, the Federal Trade Commission at the federal level is the most important regulatory force in advertising. Legal evaluation of advertising most often takes place as part of the advertising copy decision (see GLOSSARY entry C.1).

⁵Bennigson, "Product Liability," p. 123.

⁶For more on approaches to handling the product liability problem, see Bennigson, "Product Liability," pp. 126-32.

The Federal Trade Commission, under Section 5 of the FTC Act, has the power to act against deceptive and unfair advertising. The meaning of "deceptive" and "unfair" was not spelled out in the FTC Act, but a working definition of deception did emerge from court cases over the years, while the concept of unfairness fell into disuse. The working definition was that an advertisement was deceptive if it has the tendency or capacity to mislead substantial numbers of consumers in a material way.

In the early 1980s, as a result of Congressional and administrative criticism, the FTC issued a series of highly controversial policy statements that attempted to clarify the legal meanings of unfairness and deception. The new definition states that there is deception if "there is a misrepresentation, omission, or practice, that misleads the consumer, acting reasonably in the circumstances to the consumer's detriment."⁷ The FTC statement goes on to clarify the three elements of the definition:⁸

1. The advertisement must contain a claim or omit information so that consumers are likely to be misled.
2. The claim is examined through the eyes of a reasonable consumer.
3. The claim must be a material one, meaning that it is likely to affect the consumer's product choice.

The FTC's attempts to clarify the meaning of unfairness have been somewhat less successful. However, the issue is also less important to advertisers since use of unfairness has been largely limited to the writing of Trade Regulation Rules and these, due to Congressional criticism, are now infrequently issued. The FTC's definition of unfairness makes it dependent on a finding

⁷Letter from the Federal Trade Commission to the U.S. Senate Committee on Commerce, Science, and Transportation, dated 14 October 1983.

⁸For further clarification, see Gary T. Ford and John E. Calfee, "Recent Developments in FTC Policy on Deception," *Journal of Marketing* 50 (July 1986), pp. 82-106.

that substantial consumer injury resulted from the advertisement in question.⁹

Despite the FTC's attempt to clarify deception and unfairness, the terms remain poorly defined and must await further court cases before it is certain what changes in standards have occurred. At the same time, existing precedents in the application of deception and unfairness standards indicate areas of advertising that represent legal hazards.¹⁰

- *Trade Regulation Rules.* Due to Congressional criticism and some changes in authority, few new Trade Regulation Rules have been issued recently. However, some of these industry-specific rules still stand and must be adhered to by members of the affected industry.
- *Substantiation of Claims.* Under FTC policy, supported by the courts, advertisers are required to have evidence substantiating advertising claims in hand before advertisements are run.
- *Testimonials.* Celebrity, expert, or consumer testimonials must be factual and substantiated, be based on actual use of the product by the endorser, represent results that the average consumer would get, and be within the expertise of the endorser.
- *Demonstrations.* Demonstrations have been ruled to be misleading because they used mock-ups rather than the real product to produce the desired result and because the demonstration was too abstract from actual product use by consumers.
- *Test and Survey Results.* If advertisers use test or survey results in advertising, they must have the survey results in hand before the advertising is run and the test procedure and test results must be adequately and accurately presented.
- *Comparative Advertising.* Advertising in which competitors are named is not illegal as long as the comparisons do not violate the standards of deception and unfairness. However, comparative advertisements that unfairly disparage competitors or are unbalanced in their selection of attributes to compare are likely to result in legal action.

Legal Problems with Vertical Distribution Practices. In the course of developing and managing distribution channels, marketers implement programs to gain the cooperation of channel members (see GLOSSARY entry C.6). Some of these programs entail the use of power by the manufacturer and others, the granting of incentives for desired action. Some programs include what are known in legal terms as **vertical restraints on distributors** or VRDs. VRDs are manufacturer policies that have the affect of reducing brand competition among distributors.

Vertical restraints on distributors are regulated under the antitrust laws. The laws are very general in nature, but have been given meaning through precedents set in individual cases. Unfortunately, this area of law continues to change and evolve with the result that much uncertainty remains. Some distribution practices are considered a **violation per se** (illegal on their face) while others are subject to a **rule of reason**. Practices subject to the rule of reason are decided by analysis of the circumstances surrounding the practice and its economic effect. In general, under modern interpretation, marketers can adopt reasonable programs to gain dealer cooperation, including exclusive arrangements, incentive payments, exclusion of nonproductive dealers, and recapture of national accounts as long as competition is not unduly impaired.¹¹

Some of the distribution practices most subject to legal scrutiny are described below.

- *Territorial Restrictions.* A common incentive for dealers or distributors is to offer a selective or exclusive sales territory in exchange for which the dealer agrees to carry the manufacturer's product, provide it with an agreed level of sales and promotional support, and not sell the product outside the territory. (See GLOSSARY entry C.12 on **distribution intensity**.) The legality of territorial restrictions on dealers has changed over the years.¹² Until 1948, terri-

⁹Ford, "Recent Developments," p. 84.

¹⁰Based on David W. Nylén, *Advertising: Planning, Implementation, and Control*, 3rd. ed. (Cincinnati: South-Western Publishing Co., 1986), pp. 655-60.

¹¹See Harry A. Garfield II, "Antitrust Risk Analysis for Marketers," *Harvard Business Review* (July-August 1983), pp. 131-38.

¹²See John F. Cady, "Reasonable Rules and Rules of

torial restrictions were not challenged, but in that year, the Justice Department declared them per se violations, a position upheld by the courts. After the *Schwinn* case of 1966 that upheld the per se treatment, the courts gradually weakened the per se illegality of territorial restrictions until, in 1977, the Supreme Court overturned the *Schwinn* decision, requiring that territorial restrictions be judged by the rule of reason. That ruling holds today, meaning that territorial restrictions may be permissible if they are justified by good marketing practice, efficiency, and, above all, are not harmful to competition between brands.

- **Exclusive Dealing.** Not to be confused with exclusive territories, **exclusive dealing** is a buyer-imposed requirement that the buyer sell no other products competitive with the seller's product.¹³ Exclusive dealing may be legal or may be illegal, depending upon the circumstances. If the arrangement tends to substantially lessen competition, it will be declared illegal. Whether the competitive affect is substantial depends upon the market share of the product and the market share of the dealer. When both are great, the effect on competition is likely to be substantial. The seller cannot use coercion or intimidation to enforce exclusive agreements.
- **Tie-in Contracts.** A tie-in contract requires a dealer taking one product of a manufacturer to take additional products as well, perhaps the full line.¹⁴ Tie-in contracts are illegal if they can be shown to have been coercively imposed and if competition in the tie-in products has been impaired. On the other hand, if the tie-in products are essential to the use of the main product or purchase of the tie-in products is essential to the seller's quality control, the tie-in agreement may be legal. A requirement that a dealer carry a full line of the manufacturer's product if it carries any item is not illegal if the dealer is not prohibited from handling competitors' products as well.¹⁵

- **Refusal to Deal.** Sellers can choose the dealers to whom they sell and can choose not to sell to others. However, termination of an existing dealer can cause legal problems if the reason is coercive and not for a cause that is legally justifiable.

- **Customer Restrictions.** Restrictions on the customers to whom a dealer may sell are legally analogous to territorial restrictions.¹⁶ One form of customer restriction is a supplier's withdrawal from dealers of national accounts customers in order to service them directly (see GLOSSARY entry C.34). Such customer restrictions are not illegal per se, but are subject to the rule of reason. This means that they are acceptable if the seller can demonstrate that they do not result in substantially lessened competition.

When faced with distribution decisions that contain the risk of illegality, the decisions should be screened to determine the degree of legal risk that they run. Garfield suggests an approach to antitrust risk analysis for distribution decisions and Sands presents a checklist for evaluating risk in vertical restrictions on distributors.¹⁷

Legal Issues in Pricing. Pricing is, perhaps the most regulated and the legally most hazardous decision-making area in marketing. Being convicted of violating antitrust pricing laws is expensive, damaging to the reputation of the firm and industry, and has resulted in jail terms for individuals as well as huge fines. The legal requirements of price are normally considered at the second step in the pricing process as one of the **price determinants** (see GLOSSARY entry C.21).

Pricing is regulated under the antitrust laws, most particularly the Sherman Act and the Robinson-Patman Act. These acts prohibit a variety of pricing actions that impair competition. Among the most important, to be detailed below, are collusion among competitors to fix prices, discriminatory pricing between buyers, discriminatory allocation of

Reason: Vertical Restrictions on Distributors," *Journal of Marketing* 46 (Summer 1982), pp. 27-37.

¹³Based on Lewis W. Stern and Adel I. El-Ansary, *Marketing Channels*, 2d ed. (Englewood Cliffs, N.J.: Prentice Hall, 1982), pp. 366-69.

¹⁴G. David Hughes, "Antitrust Caveats for the Marketing Planner," *Harvard Business Review* (March-April 1978), pp. 42, 46.

¹⁵Stern, *Marketing Channels*, p. 373.

¹⁶Cady, "Reasonable Rules," p. 28.

¹⁷See Garfield, "Antitrust Risk Analysis"; and Saul Sands, "A Checklist of Questions for Firms Considering a Vertical Territorial Distribution Plan," *Journal of Marketing* 46 (Summer 1982), pp. 38-43.

promotional allowances, and attempts by manufacturers to control retail prices.

- **Price Fixing.** It is a per se violation of antitrust laws for competitors to get together either directly or indirectly to set prices or otherwise limit price competition. This includes agreements to limit production, divide markets, or follow standardized price calculation methods. To do so is clearly to impair competition and the role of the free market in determining price. Despite the clarity of the prohibition, there has been a history of price fixing violations, some involving major industries.

According to one study, the temptation to fix prices is greatest in industries that are crowded and mature, have overcapacity and undifferentiated products, are large and crowded, have price-sensitive customers, frequent contact with customers, and pursue negotiated job orders.¹⁸ In such oligopolistic industries, competition is intense and competitors fear price wars. (See GLOSSARY entry A.1 on oligopoly.) The incentive for collusion is great. The same authors suggest that avoiding price fixing calls for the firm to manage market conditions better and to develop a company culture that recognizes and resists price fixing through role modeling by senior executives, legal and other training, more closely controlled pricing procedures, development of a company code of ethics, and close auditing of compliance.¹⁹

- **Price Discrimination.** The Robinson-Patman Act prohibits **price discrimination**, or selling the same product at different prices to different buyers, if the effect would be to substantially lessen competition. The intent of the law is to prohibit a powerful firm from driving a smaller competitor out of business by cutting price to the competitor's customers while making up the losses with other existing customers.

Price discrimination is not a per se violation of the act. Price differentials are permissible when products are not of like grade or quality, when products are sold for different uses, at different times, or in different markets. Firms can defend against price discrimination charges if they can demonstrate that the differences in price reflect differences in

the cost of the product or in serving the customer. Under this interpretation, quantity discounts can be justified. Price discrimination can also be defended if carried out in a good faith effort to meet competitive prices.

- **Promotional Allowances.** Under the Robinson-Patman Act, promotional allowances such as display allowances, co-op allowances, or free goods must be given on proportionately equal terms to competing customers. Not to do so would create a specialized form of price discrimination. Promotional allowance decisions are normally part of the **sales promotion** program. (See GLOSSARY entry C.36 on **sales promotion** and GLOSSARY entry C.11 on **discount structure determination**.)
- **Resale Price Maintenance.** Until 1976, when the exemption of fair trade (resale price maintenance) from antitrust laws was repealed, it was legal for manufacturers to fix the prices at which wholesalers and retailers resold their products. Under current law, manufacturers desiring to influence resale prices must be careful not to use any form of coercion or to conspire with other channel members to fix resale prices. Any resale price policy must be set on a unilateral basis by the manufacturer. Terminating a dealer solely for failure to maintain resale prices will likely be deemed illegal.²⁰

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¹⁸Jeffrey Sonnenfeld and Paul R. Lawrence, "Why Do Companies Succumb to Price Fixing?" *Harvard Business Review* (July-August 1978), pp. 145-57.

¹⁹Ibid., pp. 152-56.

²⁰See Mary Jane Sheffet and Debra L. Scammon, "Resale Price Maintenance: Is It Safe to Suggest Retail Prices?" *Journal of Marketing* 49 (Fall 1985), pp. 82-91.

D.3 Marketing Control Systems

CONTROL OF MARKETING PROGRAMS

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

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

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

Marketing control is similar to, but not

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

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

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

met standards. Corrective action is directed to revisions in the program for the next planning period. Profitability measures tend to be used primarily as postcontrol.

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

- **Control Standards.** Marketing control standards define the level of performance that the marketing program is to achieve. Control standards can be financial (such as expected profit, contribution, cost, or market share) or nonfinancial (such as the level of customer satisfaction, sales force productivity, or brand awareness). Standards can be concerned with the performance of the total marketing program for a product or with the performance of an individual element in the marketing mix. Control standards are most often derived from objectives stated in the marketing plan. There will be at least as many control standards as there are marketing objectives. To be usable in a control program, standards must be stated in specific and measurable terms.
- **Performance Measurement.** The purpose of performance measurement is to provide information on the actual results of marketing program implementation. A separate performance measure must be designed for each control standard. Performance measurement must be in the terms defined in the control standard. Thus if a control standard is established in terms of profit contribution, a technique must be found for measuring contribution. The measurement technique used will also be influenced by whether precontrol, progress, or postcontrol is to be used. Results of performance measurement must be formed into reports to be supplied to the marketer responsible for corrective action. Reports compare actual performance to the control standards. Reports may be complete or they may report only exceptions or deviations from standards.
- **Corrective Action.** The final step in the control process is to take corrective action. If the control reports indicate a deviation from the standard, it is important that timely action be

taken to modify the program in order to improve performance. The initial step in this process is to analyze the deviation in performance from the standard to determine the cause of under- or over-performance. The analysis should distinguish between controllable and uncontrollable variances. Both may call for adjustments to the marketing program, but the adjustments should be dictated by the nature of the problem. Generally, corrective action should be determined and taken by the marketer responsible for implementation of the program, not by an outside controller.

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

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

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

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

FINANCIAL CONTROL METHODS FOR MARKETING

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

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

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

For sales analysis reporting, sales figures from accounting must be broken down into far more detail than aggregate sales accounts provide. Marketing control requires that sales be broken down by product, size (or style or color), territory, channel, customer type, segment, and other classifications. To make this feasible, sales documents must be coded with the dimensions needed in sales analysis and the details entered in disaggre-

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

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

ported to provide cost control over that function. Likewise, costs would be reassembled for each product and for each element of its marketing mix to provide cost control over marketing programs.³

Control of marketing costs requires comparison of actual expenses incurred by a product or function with projected expenses. The usual control standard for marketing costs is the expense budget for the product or function. The marketing plan for each product would propose an expense budget or several expense budgets if several segments were served. Likewise, each functional marketing department (sales, advertising, marketing research) would have a departmental expense budget against which actual expense can be compared. Marketing costs are also utilized in profitability control to be considered below.

There are several issues in the allocation of costs to marketing functions and products.⁴ Costs charged to products or functions should be divided into those that are controllable and those that are not controllable. Controllable costs are those that originate in and can be traced to the product or function being controlled. For example, travel expense would be a controllable expense for the sales department, but may not be for a particular product. Products and functions should be held accountable for their controllable expenses, but uncontrollable expenses are important in diagnosing the cause of changes in total cost. Costs should also be divided into those that are fixed and those that are variable. Variable expenses are those that vary with the level of activity. Sales force commission, for example, would be a variable cost because it varies with sales, but, in the short run, sales salaries would be a fixed expense because the total expense does not vary with the level of sales. Separation of costs into fixed and variable classes is neces-

sary so that variances from the control standard can be analyzed to determine whether they are due to changes in level of activity or due to other causes.

The assignment of shared costs, or what are commonly termed overhead costs, to functions or products is often a source of contention. A common approach is to arbitrarily allocate all overhead costs in the same way, usually based on the percentage of total sales contributed by a product. This practice can badly distort the costs and profits of a product since actual usage of shared facilities and resources, such as the time of top management, may not be accurately reflected by sales volume. More precise allocation formulas can be developed for some fixed costs by separately examining each overhead charge to determine actual utilization of the shared function.⁵

Profitability Analysis. Because it combines both revenue and expense, profitability provides the ultimate form of financial control. There are some functional marketing areas to which it is difficult to attribute a share of revenue. The marketing research department would be an example. Cost control rather than profitability control would be most appropriate in such circumstances. However, for most product marketing programs and for most market segments, profitability control can be used.

Profitability control requires that a profit and loss statement be developed for control units using the revenue and cost measurements discussed above. Actual profits are compared to profit targets provided as control standards. Variances from standard are analyzed using the cost and revenue analyses described in the prior sections.

Two issues in profitability analysis need to be considered. First, what costs should be applied in determining profitability? Second, to what units should profitability control be applied? Under the **full cost approach**, the profit and loss statement is formed by subtracting both the variable

³See Frank H. Mossman, Paul M. Fischer, and W.J.E. Crissy, "New Approaches to Analyzing Marketing Profitability," *Journal of Marketing* 38 (April 1974), pp. 43-48.

⁴Based on Patrick M. Dunne and Harry I. Wolk, "Marketing Cost Analysis: A Modularized Contribution Approach," *Journal of Marketing* 41 (July 1977), pp. 83-94.

⁵Thomas S. Dudick, "Why SG&A Doesn't Always Work," *Harvard Business Review* (January-February 1987), pp. 30-36.

FIGURE D.3-1

Alternative Approaches to Profitability Analysis

A. Full Cost Approach	
Revenue	
Less: Cost of goods sold	
Gross margin	
Less: Variable cost	
Allocated fixed cost	
Net profit	
B. Contribution Approach	
Revenue	
Less: Variable cost of goods sold	
Manufacturing contribution	
Less: Variable marketing cost	
Contribution to fixed cost and profit	
C. Traceable Cost Approach	
Revenue	
Less: Variable cost of goods sold	
Manufacturing contribution	
Less: Variable marketing costs	
Traceable fixed cost	
Contribution to unassignable fixed cost and profit	

costs and the fixed costs allocated to the product from the revenues. The disadvantage of this approach is that the product is charged with expenses over which it has no control and which should not enter into decisions for its program. In the **contribution approach**, only variable costs are subtracted from revenue, the result being the amount available as a "contribution" to pay fixed costs and for profits. The advantage of this approach is that it focuses control and decision making on the costs that are under the program manager's control.⁶ A third option, half way between the direct cost and contribution approaches, is to subtract all variable costs plus those fixed costs that are directly traceable to the product so there is a valid basis for allocation. The difference is contribution to fixed, unassignable costs.⁷ The three approaches are illustrated in Figure D.3-1.

The second profitability question concerns the unit for which profitability should be controlled. Modern thinking is that prof-

itability should be controlled at the product level and at the segment level. However, the term **segment** in this context is given a broader meaning than normal, referring to groups of customers or separate elements of the marketing mix. Thus profitability control might be applied to each product size or style, to different distribution channels, to different price lines, and to different territories as well as to different customer groups.

The ability to form profit and loss or contribution statements by product or segment depends upon revenues and costs being coded and entered into a disaggregate data base with information that relates them to the products and segments to be controlled. If this is done, contribution statements can be easily assembled from the data base.

Developing profitability measures by segment is termed **segmental analysis**. The great advantage of the approach is that it focuses control on the variables that are important for decision making for individual marketing program elements. By providing profitability measures for separate elements of the marketing strategy, the marketer can evaluate, for example, whether resources are properly allocated between segments, which items in the product line are most profitable, and which distribution channels deserve greater support. Availability of estimates of profitability for individual segments or elements in the marketing mix also permits variance analysis to identify the cause of differences in profitability from objectives set for a total marketing strategy.

SUGGESTIONS FOR FURTHER READING

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⁶Dunne and Wolk, "Marketing Cost Analysis," p. 84.

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D.4 Marketing Information Systems

CHARACTERISTICS OF MARKETING INFORMATION SYSTEMS

A marketing information system serves as a source of performance information that can be used in evaluating marketing programs or in projecting the outcomes of marketing decisions. Marketing information systems also provide information and analysis for the situation analysis that precedes marketing planning and marketing decision making.

What is a Marketing Information System. A **marketing information system** is an interacting set of procedures and methods for the systematic collection, processing, and reporting of information for marketing decision making. Little, who stresses the use of models and other management science techniques in these systems, terms them **decision support systems**.¹ Modern marketing information systems are dependent upon computers for analysis, storage, and retrieval of marketing data and for application of models and statistical routines.

The use of marketing information systems has grown with the availability and capability of computers, but more importantly, with the explosion in marketing information and the increased stress placed on the use of data in decision making. Kotler suggests that marketers are dissatisfied with the quality of the marketing information available to them.²

- *Amount.* There is too much information of the wrong kind and not enough of the right kind.

¹John D. C. Little, "Decision Support Systems for Marketing Managers," *Journal of Marketing* 43 (Summer 1979), pp. 9-27.

²Philip Kotler, "A Design for the Firm's Marketing Nerve Center," *Business Horizons* (Fall 1966), pp. 63-74.

- *Location.* Information is dispersed throughout the company and difficult to locate.
- *Availability.* Information is sometimes suppressed for personal reasons and hence not available.
- *Timeliness.* Information often arrives too late to be useful.
- *Accuracy.* Information is often provided in a form that makes it impossible to verify its accuracy.

These shortcomings in information availability can be overcome with a marketing information system. By providing better quality information, a marketing information system serves three functions for the marketer.³

1. *Control/Evaluation Function.* Marketing information systems measure actual outcome of marketing programs and decisions. Actual outcome can be contrasted with the planned outcome and corrective action taken to improve performance (see GLOSSARY entry D.3).
2. *Planning Function.* Marketing information systems serve the **marketing planning process** by providing a flow of control and environmental monitoring information that goes into the **situation analysis**, the initial stage of the planning process (see GLOSSARY entry A.17).
3. *Decision-Making Function.* Marketing information systems contain models and statistical techniques that permit the marketer to use the data in the system to predict the outcome of decision alternatives, and thereby select the most satisfactory decision option. (See GLOSSARY entry D.5, **projecting outcomes**.)

Marketing information systems should be distinguished from marketing research. Marketing research provides decision-making information on a one-time or project basis for

³Donald F. Cox and Robert E. Good, "How to Build a Marketing Information System," *Harvard Business Review* (May-June 1967), pp. 145-54.

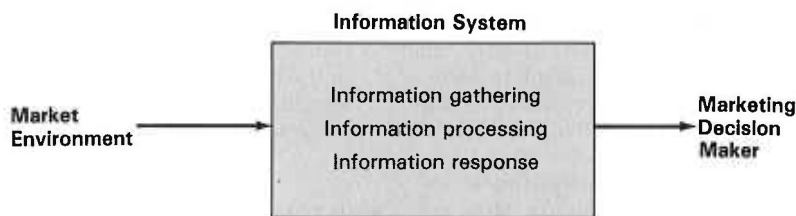


FIGURE D.4-1

A Marketing Information System

a specific marketing problem (see GLOSSARY entry A.11). Marketing information systems provide a continuous flow of information and the capability of applying that information to a variety of problems over a period of time. The **marketing research process** is frequently incorporated in a marketing information system as one of the techniques available for information gathering. One other distinction is that marketing information systems are generally designed at the level of the business rather than the individual product. As such, they are able to provide information for the opportunity analysis of the **strategic market planning process** used for the business as well as for the marketing planning process used for individual products⁴ (see GLOSSARY entry A.20).

Elements of a Marketing Information System. A marketing information system can be thought of as having three components: (1) an information gathering section with the capacity to monitor and collect data from the environment; (2) an information processing section having various techniques, programs, and models for the processing, analysis, and storage of data; and (3) a response section with the capacity for regularly reporting information and responding to inquiries using the information processing capability. The system has two external interfaces: It gathers information from the environment and provides information to marketing decision makers. The marketing

information system is depicted in Figure D.4-1.

■ **Information Gathering Section.** The marketing information system gathers information from the external environment including consumers, and it gathers data internally from the accounting system and other internal control systems. Both primary and secondary data are collected. This section of the system requires three data collection components. The external monitoring component operates continuously to gather information on events, trends, and changes in the external environment. Included would be surveillance of competition, purchase of information services, such as store audits or consumer panel data, monitoring of consumer trends, and tracking of technological, economic, and regulatory changes.

The internal monitoring component gathers information from control systems within the firm including sales, inventory, cost, and product quality data. In most systems, sales analysis, providing data by product, by territory, by channel, and by time period, is a most important part of this component. The third component in the system is marketing research that provides the capability to gather primary data on the environment and on the outcomes of marketing programs. The marketing research component provides the system with the capability of gathering primary data in response to special problems facing the business or a product.

■ **Information Processing Section.** The heart of a marketing information system is the information processing capability that transforms the data gathered by the information gathering section into storable and usable form. The information processing section has three elements or capabilities. First, it has a data base where information gathered from internal

⁴See David B. Montgomery and Charles Weinberg, "Toward Strategic Intelligence Systems," *Journal of Marketing* 43 (Fall 1979), pp. 41-52.

and external monitoring can be stored and from which it can be retrieved. Ideally, data are stored in a disaggregated or micro form.⁵ This permits more flexible retrieval of data in new combinations that meet the needs of different problems or decisions.

Second, the information processing section has a statistical analysis capability. Most systems employ statistical computer packages that tabulate raw data, construct tables, prepare frequency distributions, and calculate various measures of dispersion, central tendency, and correlation. These statistical analyses put the data into forms that are more usable for the decision maker or for decision-making models. The third component in this section is made up of computer-based models. These models, which may range from the very simple to the highly complex, provide the marketer with the opportunity, using information from the data base, to project the outcome of alternatives before settling on a final decision. Models that might typically be used would assist in setting inventory levels, setting an advertising budget, or in determining the outcome of a price change.

- *Information Reporting Section.* The information reporting section provides the interface between the information processing section and the system user. It is responsible for presenting information from the system to marketers in a form that is usable for decision making. A marketing information system provides two types of reports to system users: status reports and response reports.⁶ Status reports describe conditions as determined from monitoring some internal or external variable. Reports of competitive activity or analysis of product sales would be examples of status reports. The responsibility of the information reporting section is to determine who needs this information, condense the information so that it is not overwhelming, and put it in a format that will highlight the significant findings.

The second type of report provided by the system is a response to a user inquiry about the projected outcome of a possible decision. For example, if the price of Product X is lowered to Y dollars, what will be the effect on sales, or if the level of inventory on Product X is lowered to level Z, what will be the effect

on out-of-stock? To answer these inquiries, the system applies information from the data base to the models or statistical routines in the information processing section to generate a projected outcome of the decision.

BUILDING AND USING A MARKETING INFORMATION SYSTEM

Despite the promise that they seem to offer, formal marketing information systems have not been widely implemented. Most decision makers continue to cling to traditional and often informal sources of information in making decisions.

The Process for Developing a Marketing Information System. Installation of a marketing information system is a time consuming and expensive undertaking. It is generally agreed that there is no one design that will meet the needs of all organizations and that design is organization specific. Therefore the beginning point in developing a marketing information system lies in understanding the information needs of the marketing decision makers in the organization.

Systems experts with experience in installing marketing information systems suggest that the installation decision should consider these issues.⁷

- *Organization.* Successful installation of a marketing information system requires involvement of top management and the active cooperation of a number of marketing and nonmarketing functions including sales, marketing research, computer operations, and finance and accounting. This requires finding an organizational approach that will gain the involvement and acceptance of all parties. Kotler suggests that a special task committee be formed, under the direction of the top marketing executive, with representatives from each area that is a user or supplier of information.⁸ Cox and Good favor appointment of an information coordinator with responsibility

⁵See Cox and Good, "How to Build," p. 153.

⁶Little, "Decision Support," p. 21.

⁷The organization of installation issues is suggested by Cox and Good, "How to Build," pp. 142-54.

⁸Kotler, "A Design," pp. 68-70.

for reviewing and coordinating the work of the various contributors to the system and for representing the needs of the marketing users of the system.⁹

- **Sophistication.** Cox and Good suggest that a balance be maintained between the management sophistication of the user and the sophistication of the system design. They feel that if the sophistication of the information system is of a significantly higher quality level than that of the management, the result will be lower quality decisions because of manager rejection of the system.¹⁰
- **Development Strategy.** Effective development of a marketing information system typically proceeds by sequentially upgrading the existing system rather than by attempting to install a complete system all at once. Kotler suggests beginning by tracing existing internal flows of information and improving them in terms of timeliness and completeness.¹¹ Hulbert, Farley, and Howard suggest an approach for describing an existing information system as a basis for recommending improvements.¹² Cox and Good suggest developing the system by building one complete subsystem at a time. They suggest, for example, that the process might begin by building an exception reporting system that would alert marketing managers to deviations from plan.¹³
- **Information Requirements.** Design of a marketing information system must center on the information needs of the users of the system. The system design should proceed from back to front—from the users needs back to definition of information to be gathered. If the design ignores user needs and starts with information already available or information easily or traditionally gathered, the system will meet with little manager use. Kotler suggests that potential system users be surveyed in depth to determine their information requirements and that the long range plan for developing the system be based on those requirements.¹⁴

Applications of Marketing Information Systems. If designed to be responsive to marketer needs, marketing information systems will be widely used by decision makers. Four applications of marketing information systems are suggested below.

- **Marketing Planning.** The marketing information system is related to the **marketing planning process** in two ways.¹⁵ The first stage of marketing planning requires a **situation analysis** that analyzes the internal and external environment facing the product (see GLOSSARY entry A.17). A marketing information system provides the information upon which the situation analysis is based.

Marketing planning also provides essential input to the **marketing information system**. In order to perform its control function and alert managers when programs are not performing according to plan, the information system needs standards of expected performance. These standards or criteria for acceptable performance are provided by the marketing planning process.

- **Strategic Marketing Planning.** The **strategic market planning process** sets direction for a business rather than an individual product (see GLOSSARY entry A.20). The process begins with an opportunity analysis that determines the problems and opportunities confronting the business. Since marketing information systems are designed business-wide rather than for each individual product, the system can provide the information needed for the opportunity analysis. Montgomery and Weinberg suggest three classes of information needed for strategic market planning: (1) defensive intelligence designed to alert the planner to threatening changes in the environment; (2) passive intelligence designed to provide benchmark data for objective evaluation; and (3) offensive intelligence designed to identify opportunities.¹⁶
- **Marketing Decision Making.** Marketing information systems serve the decision maker by both retrieving and reporting on information needed by the decision maker and by provid-

⁹Cox and Good, "How to Build," pp. 150-51.

¹⁰Ibid., pp. 151-52.

¹¹Kotler, "A Design," p. 69.

¹²James Hulbert, John U. Farley, and John A. Howard, "Information Processing and Decision Making in Marketing Organizations," *Journal of Marketing Research* 9 (February 1972), pp. 75-77.

¹³Cox and Good, "How to Build," p. 152.

¹⁴Kotler, "A Design," p. 70.

¹⁵Conrad Berenson, "Marketing Information Systems," *Journal of Marketing* 33 (October 1969), pp. 16-23.

¹⁶David B. Montgomery and Charles B. Weinberg, "Toward Strategic Intelligence Systems," *Journal of Marketing* 43 (Fall 1979), pp. 41-52.

ing analysis of stored data in order to suggest alternative marketing actions and to project the response to alternative marketing actions. This latter response reporting depends upon the use of statistical analysis and mathematical models that are part of the information processing section of the system. (See GLOSSARY entry D.5 on **projecting outcomes**.) Little suggests that the greatest impact of information systems on marketing management will come from this application of analytic techniques and models to decision making.¹⁷

- **Control and Evaluation.** By continuously monitoring performance and comparing it against control standards established in the **marketing control system**, the marketing information system can provide early warning when marketing programs are not meeting expectations or when environmental conditions are not as anticipated. Either case calls for revision of programs to improve performance. Sales analysis and profitability analysis, both of which can be supplied by the information system,

¹⁷Little, "Decision Support," p. 25.

are essential components in control of marketing programs¹⁸ (see GLOSSARY entry D.3).

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¹⁸Richard A. Feder, "How to Measure Marketing Performance," *Harvard Business Review* (May-June 1965), pp. 132-42.

D.5 Projecting Outcomes

THE ROLE OF OUTCOME PROJECTION IN MARKETING DECISION MAKING

Outcome projection is a process that helps the marketer evaluate alternatives and verify that a decision meets the needs of a problem.

Verifying the Decision. The process for making a marketing decision can be thought of as having three steps (see Chapter 3). In step one, the problem is defined; in step two, the problem is analyzed and one or more alternatives developed; and in step three, the decision is verified.

The purpose of outcome verification is to enable the marketer to evaluate alternative solutions to a problem (alternative decisions) to determine which one would best solve the problem. The process of verifying the outcome of a decision has four steps:

1. Select an alternative and project its outcome.
2. Compare the outcome to the problem and refine the alternative as necessary.
3. If there are other alternatives, repeat steps 1 and 2 for each one.
4. Compare the outcomes for each of the alternatives and select the alternative with the best outcome as the final decision.

Outcome projection, as can be seen above, is part of the outcome verification process. **Outcome projection** consists of estimating how the problem situation will change if the alternative decision is put into effect. It provides the basis for choosing between alternatives and for deciding if a decision will solve the problem for which it was designed. Outcome projection also suggests ways in which a possible decision can be refined so that it better solves the problem.

Outcome projections can be both finan-

cial and nonfinancial. In most situations, both types of projections are needed, since most marketing decisions influence both financial and nonfinancial dimensions of the problem situation. Financial outcomes would include influences on sales revenues, costs, and profits. Nonfinancial outcomes could include such dimensions as the influence on brand loyalty, level of distribution, and product awareness or the legality and ethical acceptability of the results.

Outcome Projection in Marketing Planning.

Outcome projection is also a part of the **marketing planning process** (see Chapter 4). The marketing planning process has four steps:

1. The **situation analysis** analyzes the context in which the marketing strategy is to be implemented.
2. **Positioning** defines how the product will compete and marketing objectives define how the product will respond to problems and opportunities facing it. Both provide direction for the marketing mix programs.
3. The **marketing mix** defines marketing programs that will carry out the positioning and objectives set for the product.
4. **Outcome projection** estimates the results of implementing the marketing strategy (positioning and marketing mix) for the product.

Outcome projection, then, is the final step in the marketing planning process. Its purpose is to permit evaluation of a proposed marketing plan by specifying what is expected to happen if the marketing plan is implemented. Outcome projection also provides control standards by defining levels of expected performance. Control standards are used as part of the **marketing control system** (see GLOSSARY entry D.3).

Timing of Outcome Projection. It is important to note that outcome projection takes place after decision alternatives have been formulated. Both the revenue and cost estimates necessary for projecting financial outcomes depend on the details of the alternatives. Such things as price, promotional budgets, and product costs must be known

before financial projections can be made. The same is necessary in projecting nonfinancial outcomes. If, for example, the level of distribution is to be projected, it is first necessary to know such things as how large the sales force will be, the level of trade discounts, and the amount of trade advertising.

For the same reason, outcome projection occurs as the final step in the marketing planning process. The outcome of a marketing strategy cannot be projected until the strategy has been fully formulated.

OUTCOME PROJECTION METHODS

The decisions that marketers are called upon to make are frequently highly complex with multiple outcomes that need to be projected. In most decisions, profit prospects for the product will be affected and should be evaluated. In addition, there will be other outcomes that, although they may affect long-term profit, can be projected only in nonfinancial terms. The outcome projection methods discussed below are divided into the same two classes—financial and nonfinancial.

Projecting Nonfinancial Outcomes. Marketing decisions for complex problems usually have nonfinancial objectives as well as profit-oriented ones. Two obvious nonfinancial evaluations that must be made are to determine the legality of the proposed action and to determine whether the decision is ethically right. There are numerous other nonfinancial outcomes that may be termed **performance outcomes**. With these outcomes, the question is, will the decision “perform” as intended? Typical performance outcomes are concerned with the effect of the decision on consumer behavior, on competitive response, or on channel member cooperation.

Nonfinancial outcomes appear more difficult to project because the measures are nonquantitative. However, there are marketing concepts that provide processes and guidelines for evaluating nonfinancial outcomes. Three approaches to projecting nonfinancial outcomes are use of evaluation

standards, use of models, and use of pretest marketing research.

- *Evaluation Standards.* One approach to projecting nonfinancial outcomes is to use evaluation standards as guides in estimating likely outcomes of a decision. This approach is applicable to projecting ethical and legal outcomes. The **ethical evaluation** concept (see GLOSSARY entry D.1) provides a set of questions that will help the marketer judge if a decision will have an ethical outcome. The legal acceptability of a decision can be evaluated by determining whether or not it falls into a legally sensitive area. If it does, the legal risk must be evaluated by measuring the decision against the requirements of the applicable law. GLOSSARY entry D.2 on **legal requirements** provides guidance in identifying potential legal problems. Various other decision-making concepts contain evaluation standards that can be used to evaluate whether or not a decision outcome will be valid and accurate. For example, the **marketing research process** provides guidance in projecting whether or not research decisions will have acceptable outcomes (see GLOSSARY entry A.11). In the same way, the criteria for selecting a **sales forecasting** method provide standards for evaluating the likely outcome of that decision (see GLOSSARY entry A.16).
- *Use of Models.* Both conceptual and mathematical models can be used to project the nonfinancial outcomes of decisions. The model of the **consumer decision making process** (see GLOSSARY entry A.2) can be used to project consumer reaction to changes in the marketing program for a product and the **competitive market structure** model can be used to predict how competitors will react to changes in marketing programs (see GLOSSARY entry A.1). Other conceptual models useful for projecting decision outcomes include the **store choice** decision concept (GLOSSARY entry A.18), the **new product adoption process** (GLOSSARY entry A.12), the **product life cycle** (GLOSSARY entry A.15), and the **organizational buying process** (GLOSSARY entry A.13).

Mathematical marketing models have as a primary function the projection of decision outcomes and, for many models, these outcomes are nonfinancial. To cite one example, inventory models are available that enable the decision maker to evaluate the effect of stock levels on customer service (see GLOSSARY entry C.15). Firms with well-developed **marketing in-**

formation systems will have models in their information processing section available to respond to requests for outcome estimations (see GLOSSARY entry D.4).

- *Use of Marketing Research.* Marketing research can be used to pretest marketing decisions by providing estimates of nonfinancial outcomes. Advertising, for example, is frequently pretested with consumers to project changes in awareness, product knowledge, and purchase intention (see GLOSSARY entry C.3). Home-use tests are used to predict consumer reactions to proposed product changes (see GLOSSARY entry C.25). Surveys can be used to estimate a variety of nonfinancial outcomes such as channel member reactions and consumer reactions to decisions that affect them. Simulated and traditional test markets can also be used to estimate outcomes experimentally (see GLOSSARY entry C.18).

Projecting Financial Outcomes. The financial outcomes of marketing decisions are projected using tools of financial analysis. The objective in projecting financial outcomes is to estimate how revenue, cost, and, especially, profit will change if a particular decision or alternative is implemented. Three financial analysis methods commonly used for this purpose are the projected profit and loss statement, return on investment, and breakeven analysis.

- *Projected Profit and Loss Statements.* Perhaps the most straightforward approach to projecting financial outcomes is to prepare a projected profit and loss statement reflecting each decision alternative being considered. Preparation of profit and loss statements requires that the changes in cost be estimated for each alternative. In addition, changes in revenue resulting from each alternative must be projected. The statement projects profit by subtracting the total cost under an alternative from the total revenue under that alternative.

Profit and loss statements can be projected for an entire business, for a product, for a market segment, or for a single element of the marketing mix. Projecting profits for segments or marketing mix elements requires that both revenues and costs be stored in a disaggregate data base so that they can be reassembled in terms of the appropriate decision-

making unit. Marketing information systems are used to gather and store such information in the system data base (see GLOSSARY entry C.3). The unit chosen for profit projection should be the same as the decision-making unit. If the decision concerns the market strategy for the business, the profit of the business should be projected. If the decision concerns a single product, the projection should be limited to that product, and if the decision effects are limited to a single segment or a single marketing mix element, the profit projection should focus on that segment. (See GLOSSARY entry D.3 for more on segmental analysis.)

Profit and loss statements can be projected on an incremental basis rather than on a total basis. To determine the incremental profits of an alternative, changes in cost are subtracted from changes in revenue. The incremental approach focuses on the changes in profit that are expected from an alternative. Another alternative is to use a contribution rather than net profit approach. To do so, costs must be divided into those that vary with sales or output and those that remain fixed regardless of volume. If only variable costs are deducted from revenue, the remainder is the **contribution** available to pay fixed costs and for profit. The advantage of the contribution approach is that it focuses decision making on controllable variables. (For more on the contribution approach, see GLOSSARY entry D.3).

Important disadvantages of the profit and loss approach to projecting financial outcomes is that (1) profit results are not related to the level of investment required to generate the profits and, as a result, profits of different alternatives are not comparable, and (2) there is frequently no reasonable basis for estimating the sales results that will be achieved as a result of implementing the decision.

- *Return on Investment.* The return on investment (ROI) approach attempts to make the outcomes of alternatives comparable by expressing profits in relationship to the level of investment required to generate those profits. ROI is calculated by dividing the projected profit resulting from a decision by the assets employed to earn those profits. Thus

Return on investment

$$= \frac{\text{Net profits from decision}}{\text{Assets employed by decision}}$$

ROI represents the return that is expected on the assets invested to carry out a decision. An alternative approach is to subtract from the projected profit the imputed interest cost charged to the value of the investment employed in the decision. If the company's cost of capital is used as the interest rate charged, the resulting return represents the profit after cost of capital.¹ As in the case of projected profit and loss statements, ROI can be calculated on an incremental basis and the unit of analysis can be the business, the individual product, a segment, or an individual element of the marketing mix. The advantage of the ROI approach is that it facilitates profit comparison of alternatives with different levels of investment.

- *Breakeven Analysis.* Breakeven analysis, or target volume analysis, is widely used in marketing outcome projection because it does not require that revenues be forecast first. Instead of determining what profits will be realized at a forecast level of sales, **breakeven analysis** reverses the process by determining the level of sales that will be necessary in order to reach a target level of profits or to reach a breakeven (zero profit or loss) point. This is frequently appropriate since decision objectives are frequently expressed in terms of profits, and sales resulting from a particular decision are difficult to forecast.

Breakeven analysis can be conducted on an aggregate or incremental basis and on the level of the business, product, segment, or marketing mix variable. As above, the choice depends upon the scope of the decision and the availability of disaggregate cost data. Breakeven analysis requires that costs related to the decision be projected first and then divided into fixed and variable components as described above. Then the breakeven point can be determined. Breakeven is the sales volume needed to recapture costs. Breakeven can be determined graphically or algebraically. In Figure D.5-1, fixed costs are plotted to remain unchanged with volume. Variable costs, shown increasing with volume, are added to fixed costs to determine total cost. Sales at an assumed price are shown increasing with units sold. The breakeven point is at the intersection of revenue and total cost.

¹See Frank H. Mossman, W.J.E. Crissy, and Paul M. Fischer, *Financial Dimensions of Marketing Management* (New York: John Wiley, 1978), pp. 7-24.

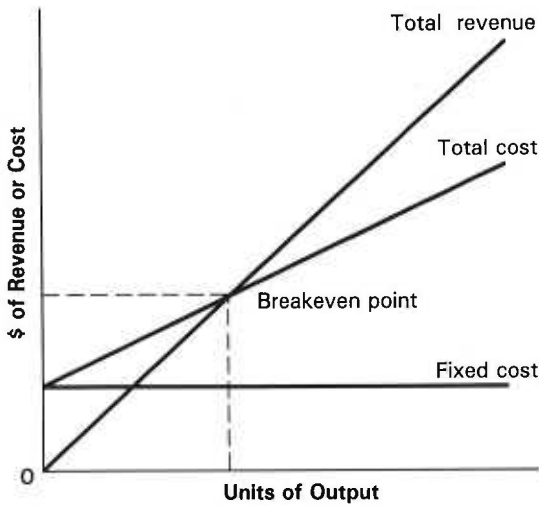


FIGURE D.5-1

Graphical Determination of Breakeven

Algebraic determination of breakeven is usually more convenient. Breakeven is the point at which total revenue equals total sales. Thus,

At breakeven:

$$\begin{aligned} \text{Total revenue} &= \text{Total cost} \\ \text{Total revenue} &= \text{Price} \times \text{Quantity} \\ \text{Total cost} &= \text{Fixed cost} + (\text{Quantity} \\ &\quad \times \text{Unit variable cost}) \end{aligned}$$

Substituting:

$$\text{Price} \times \text{Quantity} = \text{Fixed cost} + (\text{Quantity} \times \text{Unit variable cost})$$

Solving for Quantity:

$$\begin{aligned} (\text{Breakeven}) \text{ Quantity} \\ = \frac{\text{Fixed cost}}{\text{Price} - \text{Unit variable cost}} \end{aligned}$$

Breakeven analysis can be modified to determine the sales volume necessary to achieve a target profit level. To do this, the dollar

amount of desired profit is added to the fixed costs in the graphical approach, thus increasing total cost and raising the breakeven point. Algebraically, the target profit is added to fixed costs and the equation solved for quantity as before. The solution represents the level of volume needed to achieve the target profits.

Breakeven analysis can also be used to determine the level of contribution generated by various levels of sales. Graphically this is done by inverting the fixed and variable cost curves, putting variable cost on the bottom and adding fixed cost to it to get total cost. Contribution is represented by the height of revenue over variable cost. Algebraically this can be accomplished by substituting a target contribution figure for fixed cost and solving for the quantity that will provide the target contribution.

Breakeven analysis can be used on an incremental basis to evaluate changes in marketing programs. If, for example, a marketing decision calls for an increase in fixed cost (such as an increase in advertising budget), the change in fixed cost divided by the contribution margin (price - variable cost per unit) would yield the sales needed to breakeven on the increase in the advertising budget.

As an output projection method, breakeven analysis does not forecast what sales will be if a decision is implemented. Instead, it defines what sales need to be if the decision is to breakeven or reach a target profit level. The marketer must then apply the test of reasonableness to the breakeven results, asking: Is it reasonable to believe that the target level of sales can be achieved? Similarly, comparisons can be made between alternatives to determine which is most likely to achieve breakeven targets.

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PART TWO

Analysis of Cases in Marketing

PART TWO

ANALYSIS OF CASES IN MARKETING

The marketing decision-making process developed in Chapter 3 is designed for real world use. Its development was guided by an understanding of the complex nature of the problems that practicing marketers face in their work, and it was designed to build on the methods that they use intuitively in making decisions.

In Part Two, the applicability of the marketing decision-making process will be illustrated by showing how it can be used in the analysis of marketing cases, which are problems drawn from the real world.

- In Chapter 5, the application of the marketing decision-making process described in Chapter 3 to marketing cases is presented.
- In Chapter 6, a marketing case is presented together with a complete analysis of that case that resulted from the application of the approach described in Chapter 5.
- Chapter 7 provides a trouble-shooting guide designed to answer questions that frequently arise in the course of marketing case analysis and gives suggestions for overcoming roadblocks that arise in preparing a case.

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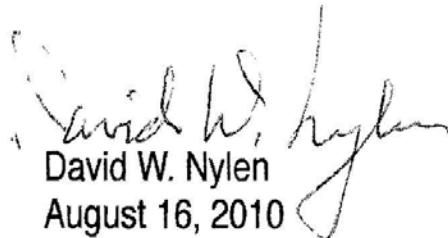
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