Integrated Marketing Management
Prof. R. Srinivasan
Department of Management Studies
Indian Institute of Science, Bengaluru

Lecture - 29
Marketing Expense Analysis

Welcome to this class. Let us now look at how the Marketing Expenses are changing with respect to sales analysis. How will you do this marketing expense analysis with respect to sales?

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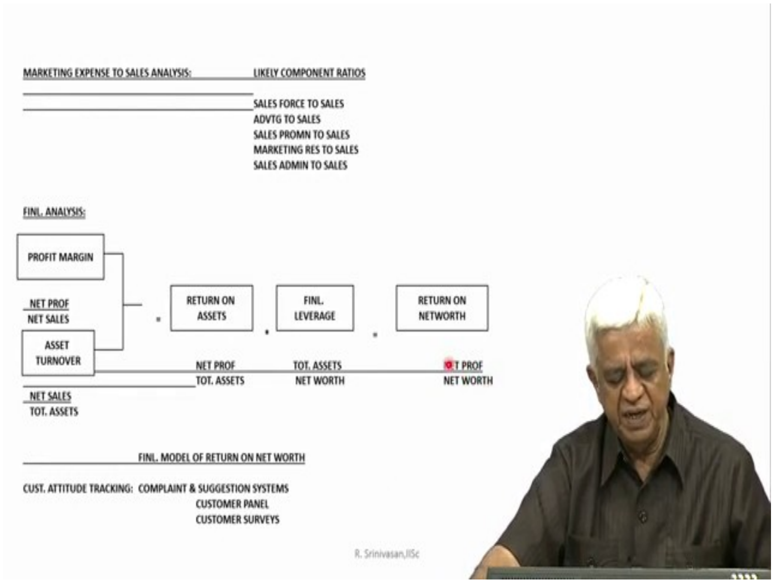

In order to do this, you may make use of some component ratios that is sales force to sales advertising to sales, sales promotion to sales, marketing research to sales, sales administration to sales. You may be incurring expenses with respect to sales force, then in order to find out how they are performing, you would like to know what is that sales force resulting, how much has been converted into sales. Let us say you are getting an a very small, I will give you a very simple example.

Suppose you are being paid rupees X by a company with respect as a sales person. Now how much a company expects from you to get to give you X that is you let us say hypothetically the company gives you 100. Then how much does it expect from you as sales? It expects 10 X. So, this 10 X from you, it is going to be apportioned on so many heads; how much about the production department and other departments.

If you are able to generate 10X that is 1000, the company can give you 100. This is the way they normally calculate. Many of them you say that this sales person is performing very well. Now you are getting so many services. They are asking you to rate, they are asking you to rate even your Uber taxi driver.

They say the driver who drove you from your house to the airport is a five-star driver from Uber. How do you rate your ride from your house to the airport? Give a feedback. The driver may also be telling you when you are alighting from your taxi, “sir, give a good feedback; I have driven you from your house to the airport possibly in a short time compared to others. Suppose the others took 1 and half hours, I took 10 minutes less that type of thing in a city like Bangalore.”

This is in other words, a marketing man always keeping an eye on the sales. He keeps on doing these types of analysis. Then he tries to calculate how much he is spending on advertising, how much is it resulting getting converted into sales. So, I spent 10 rupees on advertising, how much is it coming towards sales is am a releasing at least about 100 rupees on this through this advertising.

Suppose you want to advertise your product on a well-known channel for a small few seconds lot, you are shelling down a lot of money. Then the market research people will come into find out through their analytics what is the impact this exposure has had on the sales. Now suppose you are doing giving some incentives as sales promotion. You purchase 4 for the price of 3, then what has really gone about with respect to sales as it increased, as it not increased, how is it going.

Then let us say you want to have a marketing research department, a strong marketing research department and that marketing research department should contribute also to sales your X. Let us say you are incurring X and your sales is not showing that much of increase, then the marketing research department comes into question. Similarly, the sales administration. If you really take the scenario in India right now, you find that many of the things which are which were expected to be normal; they are not normal now.

You find many sales people coming on a door to door campaigns for well known products also. Well known products like of the Hindustan Lever. Even Surf Excel Matic is being sold through direct selling. Why are you they why they are doing this direct selling? One is to reduce expenses, second is to increase the sales.

This is what competitive markets can do and when competitive markets do this, then your you have to go back to your calculation boards on the expense that is being incurred on these different heads and then how much it is getting converted to sales.

Now the finance man also chips in. What is the finance man chipping in on? He is chipping in on the financial analysis. He wants it can be shown by this diagram, you have the profit margin block here which is nothing, but the net profit divided by the net sales, then you have the asset turn over which is net sales over total assets. This leading you to return on assets multiplied by the financial leverage multi giving you the return on net worth

Your profit margin is given by and the asset turn over given by this return on assets multiplied by this financial leverage that is return on assets is nothing, but net profit over total assets. The financial leverage is nothing, but total assets over net worth giving you again the return on net worth that is net profit over net worth.

This is how the financial man is going to crack the WIP on the spending from the marketing people and this is called the financial model of return on net worth. You are looking at this financial model of return on net worth through under these different heads especially the profit, the sales with respect to your assets total assets and the net worth.

After doing all this, the marketing man is interested in tracking the attitude of the customer why so many things are happening which were not on expected trends. He may like to find out from the customer whether he has got complaints. This complaint and suggestions, his systems are now being resorted to by almost all the leading market players.

Sometimes they adopt what is called the customer panel to voice the opinions about the product, the company, all those things sometimes they do make use of customer service. How is the customer reacting to the product?

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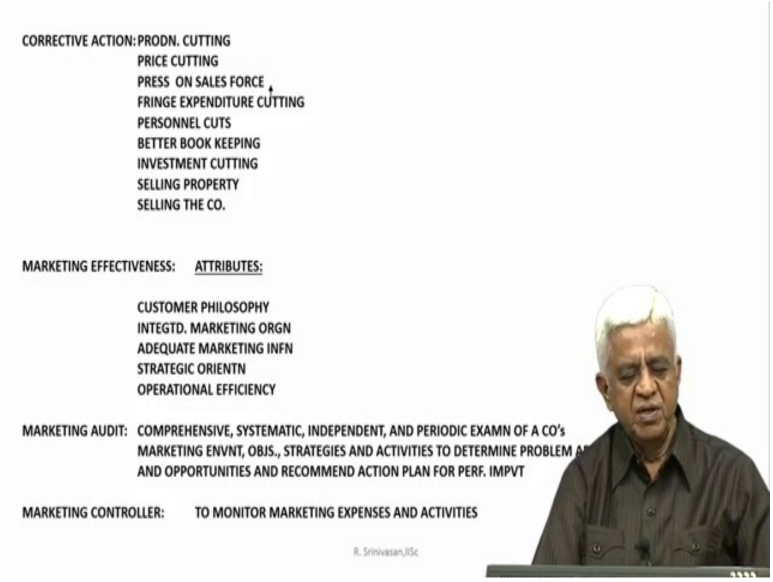

All these results in what is called corrective action. The corrective action can take different forums. It can be production cutting, it can be price cutting, it can be pressure on the sales force or it can be fringe expenditure cutting or it can be personal cuts or it can be better house book keeping or it can be investment cutting or selling property or sometimes he may like to sell the company itself since you are not performing well.

You may look at so many options. First from cutting the production, then cutting the price, increase the pressure on the sales, force fringe expenditure cutting, then personal cuts that is reduce your sales force personnel, then better book keeping, then investment cutting, then selling the properties some of them which are red drag on the company's profits and if you are not able to still survive or hang on, you may like to sell the company itself. So, this is what market does for any company.

What does it mean? It means in a market, you should perform you should be performing in order to keep yourself going. In a city like Bombay or Mumbai now or Bangalore, this fast food chain is considered to be a very good business. This fast food chains in Bangalore like your Darshinis or small hotel joints which are serving limited food items at a competitive price and they are giving a run per money to the bigger hotels.

If you look at some of these small joints, they are able to give you your idly vadas at nearly 50 percent of the usual hotels. Only thing is it is a self service; you have to take a coupon and this coupon to be presented and you get your idly vadas at early 50 percent less compared to a usual hotel where you are having a sitting place and the server comes takes the order, he takes his time to bring the order all those types of things.

What is that called? It is called the business environment landscape. For the business environment, they have given you there is a certain cost associated with it. You are looking at marketing effectiveness under different heads. These are called attributes. These attributes can be with respect to the customer philosophy, you may look at the customer as the king. So, he would like to treat him as a kings.

Many of the hotels do that. They take lot of interest in the customer. The result is the price of the product which is given to the customer for satisfaction also will be high. You find many enquiries they do of the customer about the product saying, is it good all those types of things.

This may all this customer philosophy many times reflected in integrated marketing organization that is you want to see that there is a good marketing organization in place good or the marketing organization meaning that there is a coordinated marketing. Internal marketing is also good, the external marketing is also good. Then you have adequate marketing information. So, you are your competitors are trying to produce so many products and they should not be allowed to become one up in the market place.

You should be always on the toes to see that you have adequate marketing information. This can give you a good strategic orientation that is your marketing strategies can be owned to ensure that you are braced well to compete under pressure. Then when you are competing under pressure your operational efficiency should also be high, you cannot afford to lakhs.

These are actually the attributes of marketing effectiveness that is the customer philosophy, the integrated marketing organization, the adequate marketing information, the strategic orientation and the operational efficiency all those coming under this whole marketing effectiveness. Then after doing all this that is you had the marketing organization, you did the sales analysis all those types of things; the next man who comes with respect to marketing is your marketing audit person.

What does he do? He does a comprehensive systematic independent and periodic examination of the company's marketing environment, objectives, strategies and activities to determine problem areas and opportunities and recommend action plan for performance improvements. He comes out with different action plans to improve the performance of the company. The last person who comes in is the marketing controller. He is the person who monitors the marketing expenses and the activities.

The marketing controller is a person who comes out with expenditure checks, he comes out with activity checks and he many times has the ability to cut down on many of your expenses and also he can reevaluate many of the activities of the marketing department.

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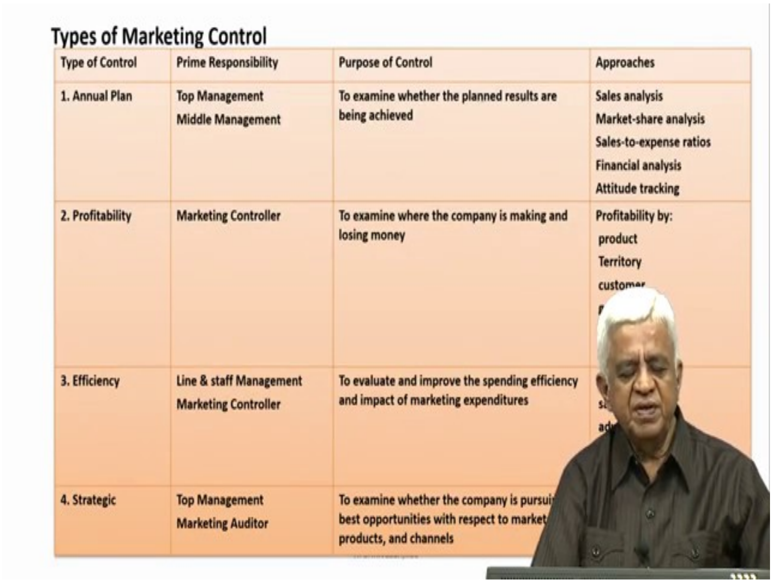

All this is expressed in this diagram as types of marketing control. If you take the types of marketing control, it is put under four columns. One is the type of control, second is the prime responsibility, third is the purpose of control, fourth is what are the types of approaches that you can adopt for this exercise of control.

Suppose it is an annual plan control that is the first type of control, who are responsible for this? The people who are responsible for this in the organization are your top management and the middle management. These are the two levels at which you are controlling the annual plan.

Why are you doing this? To examine whether the planned results are being achieved. So, initially before the years started, you wanted the results to come out in a particular manner and this top management and the middle management always watching whether it is going according to what was forecast. Now how do they do that? They may be doing it through these types of approaches.

One is the sales analysis, the second is the market share analysis that is with respect to the top three competitors, the third is the sales to expense and ratios which we listed, then the fourth is the financial analysis, then the fifth is the attitude tracking that is basically how the customers attitudes consumers attitudes are changing with respect to the products of the company or are the at the same at the same this thing last year as in last year.

Suppose there is a change some competitor is has changed their attitude to buy his products against your products, then this attitude tracking will tell should also tell how the other customer is selling his product via a vias your people via your people. Then the profitability control is a second one. The person who issued do this profitability control is a marketing controller. What is the objective?

The objective is to examine whether the company is making or losing money. Where is this company is making and losing money, both have to be checked by the marketing controller. How does he do it? He does it basically by calculating the profitability. He does this profitability check or approach by product wise, territory wise customer wise, then group wise or trade channel wise or order size wise.

We can adopt any of these things. We can adopt product, territory, customer group, trade channel or order size. That is the second type of marketing control that can be adopted. The third type of marketing control is with respect to line and staff management. The is the third type of control is the efficiency control which is done by the line and staff management and also the marketing controller. How do they do it or what is the purpose of doing this?.

The purpose is to evaluate and improve this spending efficiency and impact of marketing expenditures. This can be the approach can be to this to look at the efficiency of your sales force, advertising, sales promotion and distribution. Look at the efficiency of sales force, advertising, sales promotion and distribution. These four points are going to come into play with respect to this type of efficiency control.

The last one is what is called the strategic control, strategic marketing control. What is this strategic marketing control? It is a prime responsibility of the top management and the marketing auditor. The top management and the marketing auditor should be able to have or should be able to guide the marketing department with respect to strategic control. What is the purpose of this control? The purpose of this control is to examine whether the company is perusing its best opportunities with respect to markets, products and channels.

It should examine whether the company is perusing its best opportunities with respect to products, with respect to markets and channels. What is the type of approach that you can adopt for this? You can have a marketing effectiveness rating instrument, find out how do you rate the marketing effectiveness that can be by the types of ratios which we which we mentioned. You can calculate the different types of ratios to calculate the marketing effectiveness and arrive at this overall market share also.

The other method is to look at marketing audit. Do a thorough audit of the company's marketing department and when you do a thorough audit of the company's marketing department, you will get an idea of where this whole marketing department is moving towards. This marketing audit is a very important approach to find out about strategic marketing control. These are the four types of marketing controls you can have.

One is the annual plan, second is the profitability, third is the efficiency, fourth is the strategic marketing control. The responsibility for all this for annual plan is top management and middle management for profitability is the marketing controller for efficiency, it is a line and staff management and the marketing controller and the fourth for strategic marketing control, it is the top management and the marketing auditor.

What does this tell you? It tells you this marketing department cannot function in the present-day system in isolation that is I will not be bothered about what other departments are doing. No not possible because it is going to be or it will be always monitored by the top management and it is answerable to the top management with respect to the results it is achieving.

When it is answerable to the top management that marketing department cannot afford to relax especially when the competition is intense. You are forced to be on your toes, forced to perform to keep your head up in the market place; otherwise you may be swamped upon and any time you may have to fold or close your shop which is happening with respect to many of the MSMEs in Bangalore. If you look at the Peenya industrial estate, you find that 50 percent of the MSMs MSMEs are closed shop not able to put up with many of these vagaries of the market.

This market vagaries are making them shut, then the impact is just tremendous you are losing so many jobs because MSMEs is the engine for job creation MSME. If you are not able to sustain them, then job creation gets affected then the marketing moral becomes down. You cannot compete in your domestic market itself correctly; forget about the exports and other aspects. So, this is what the different types of marketing control aim.

The aim to increase sales ultimately and they do this by this types of four controls. Then we will stop here, we will continue in the next class.

Thank you.