# MANAGING MARKETING EXPENDITURES: AN OVERVIEW OF THE ISSUES AND A TEACHING FRAMEWORK

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## ABSTRACT

Marketing scholars continue to try to develop optimal combinations of marketing mix variables. Recent efforts in this area are discussed, and an overview of both effective and efficient marketing decision-making is presented. Last, the problems of implementing such a framework are reviewed.

## INTRODUCTION

Marketing managers should be encouraged by recent attention in the marketing literature given to the analysis of marketings' interactions with other functional areas within the organization (Ruekert and Walker 1987). This article develops a general framework for understanding social aspects of planning, implementing, and controlling marketers' activities as they interact with several, not just one (Gupta, Raj, and Wilemon 1986), functional areas within the firm. The result is a view of marketing relative to the other business decision areas, which allows the firm to assess its "marketing orientedness."

Unfortunately, comparable frameworks for analyzing marketing costs and productivity are not well-developed. A number of scholars have, however, recently examined the marketing control process from various perspectives. The impact of firm size on corporate profits has been studied (James, Planchon, Brandenburg, Evans, Kiser, Leverette, and Ware 1986). The impact of marketing strategies on retail profits has been reported (Cronin and Kelley 1985). Others have studied the profit impact of promotional activities (Kelley 1986; Hardy 1986), measures of advertising quality (Ghosh and Craig 1986), and optimal location of services (Arnold, Oum, Pazderka, and Snetsinger 1987). Also, Levy and Ingene (1984) and Sharma and Achabal (1982) have reported on how to analyze and control marketing costs.

This last area of inquiry has been explored by others (Fogg 1974; Mossman and Worrell 1966; Kirpalani and Shapiro 1973; Betley 1973; Lambin 1970) and has a research tradition which dates back 60 years. The various issues and questions raised by researchers can be organized into two major areas of study: determination of profit contributions by market segment (Beik and Buzby 1973; Buzby and Heitger 1976a; Crissy, Fischer, and Mossman 1973; Mossman, Fischer, and Crissy 1974) and analysis of cost-effectiveness of future marketing outlays (Corr 1976; Feder 1965).

Segmental contribution analysis helps in the identification of homogeneous market segments for calculating contributions of various marketing activities to profits (Buzby and Heitger 1976b). For example, territories, salespersons, or product lines making the largest absolute or relative profit contributions to can be pinpointed. Low contributors can be reviewed and targeted for corrective action or perhaps elimination if continued substandard performance is unacceptable.

Cost-effectiveness analysis enables the marketer to assess the profit impact of different levels of expenditure by marketing activity (Buzzell 1964; Lambin 1970; Lodish 1975; Lodish 1976). As the firm experiments with varying levels of expenditures by category, the marketer may approach a so-called optimal level for, say, advertising.

Taken together, segmental contribution analysis and cost-effectiveness analysis provide a measure of prior performance and a criterion for future outlays, respectively. Both approaches are important if a firm's management team is to remain informed regarding the most profitable expenditure and opportune use of marketing resources.

A procedural difficulty inherent in both contribution margin and cost effectiveness analyses may, however, mask important variations in marketing performance. The key to contribution analysis is the breakdown of sales and cost categories for assignment to control segments defined by product, territory, distribution channel, etc., or combinations thereof (Hulbert and Toy 1977; Dunne and Wolk 1977). This top-to-bottom approach facilitates an effectiveness analysis (budgeted vs. actual expenses and revenues) within successively more detailed segments (e.g., by region, by product-region, etc.). Segments needing corrective marketing action based on substandard performances are identified. Managers can thus identify the specific areas which must receive extra attention.

However, effectiveness-oriented approaches do not provide information for assessing the efficiency of marketing expenditures. A market segment meeting its contribution-to-profit objective will typically not be analyzed in any greater detail. But are marketing expenditures in this segment being utilized as efficiently as possible (Wittink 1977; Sheth and Frazier 1983)? Could greater profits have been realized had, for example, the advertising budget been allocated differently among the various media alternatives (Beckwith 1972)? Which corporate business unit is earning the most profits relative to marketing investment (Phillips, Chang, and Buzzell 1983)? What product should receive what share of the advertising budget (Cardozo and Smith 1983; Wind, Mahajan, and Swire 1983)? How should the sales effort be allocated (Parasuraman and Day 1977)? Answers to these questions are obtained via a detailed analysis of subsets of financial accounts for marketing activities.

These questions are akin to productivity questions. Is the company securing the largest possible market share, given marketing outlays (Ghosh, Neslin, and Shoemaker 1984; Horsky 1977; Anderson

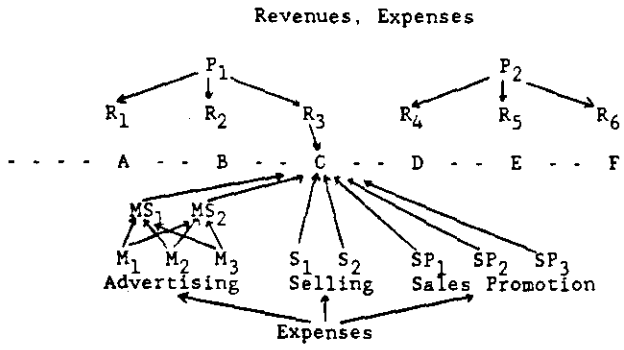
1980; Cook 1985b)? Is the company's work force as productive as possible, or could improvements be made by reassigning people to different tasks or rearranging tasks? Questions like these have been examined in retailing (Ingene 1982; Ingene 1985) and from a macro perspective (Steiner 1978). A similar analysis at the firm level could be of assistance to marketing managers (Cook 1983, 1985a; Chattopadhyay, Nedungadi, and Chakravarti 1985; Parasuraman and Varadarajan 1985).

## EFFECTIVENESS-EFFICIENCY INTERFACE

The approach just noted complements contribution analysis and cost effectiveness studies. Effectiveness and efficiency studies have different starting points, but they both focus on marketing activities within market segments. The effectiveness-efficiency interface is shown in Figure 1.

FIGURE 1

THE EFFECTIVENESS-EFFICIENCY INTERFACE




$P_i$=product; $R_i$=region; $M_i$=medium; $MS_i$=message

This example assumes a three-region, two-product company. This results in a six cell market grid for determining segment contribution margin. For each of cells A-F, assignable costs and revenues could be compared to determine each segment's relative contribution to covering unassigned costs.

As illustrated in Figure 1, efficiency analysis utilizes the same market grid framework; however, the allocation of costs to segments is the final step. Marketing costs are initially subdivided by type of activity. In this simple example, only three marketing activity categories have been assumed: advertising, selling, and sales promotion.

Suppose further that the hypothetical company used television, radio, and magazine advertising. The advertising message content emphasized either quality workmanship or product styling and design. Selling alternatives were catalog sales (through national catalog retailers/discounters) and salespersons (to retail stores and chains). Sales promotions included in-store displays, seasonal special discounts, and contests (cash prizes to customers returning registration cards).

Ultimately all detailed costs are assigned to the six market segments to the extent they can be traced to a specific segment. Each segment can now be analyzed not only for contribution to profits, but also for efficient utilization of marketing outlays within each category (e.g., advertising message-media options).

## DIFFICULTIES IN IMPLEMENTING AN EFFECTIVENESS-EFFICIENCY MODEL

Marketing has generally lagged behind manufacturing in the development of cost containment and monitoring systems (Longman and Schiff 1955), yet marketing costs account for a considerable percentage of the sales dollar (Cook 1985b). The reasons for such slow recognition of the potential for controlling marketing expenditures are diverse. Marketing costs have not always been so large relatively (Heckert 1940); hence, the need for control of marketing outlays has not been as critical as it is today. As techniques for controlling production-based costs became refined, little could be gained by further sophistication. Looking for additional applications, cost accountants quite naturally turned elsewhere--to marketing. Competitive pressures forced management to focus internally on cost control rather than externally on sales expansion. The marketing concept of the 1950s and 1960s emphasized buyer satisfaction as expeditiously as possible (Hulbert and Toy 1977).

All of these reasons, and undoubtedly others as well, have motivated the search for a comprehensive marketing control system. Yet progress has been slow. Several characteristics inherent in the functional area of marketing have impeded this development.

First, the external orientation of marketing is inconsistent with conventional control procedures. Many marketing activities have the consumer, who defies easy explanation or quantification, as their focal point. A no-sale may result because of numerous customer-related reasons; thus, a multivariate analysis would contain many subsets or subanalyses. The marketer may also mistakenly interpret consumers' needs. In addition, certain marketing activities have a mass market focus, making performance standards so general that they may be of little guidance. For example, through advertising marketers attempt to implant an idea or influence an attitude in the minds of millions of people. The exact nature of this influence, in terms of a particular number, cannot be specified.

Second, effectiveness-efficiency problems are fundamentally difficult to formulate. Definitions of marketing effectiveness would be sources of disagreement. For example, what constitutes effectiveness for advertising? Is it retention of an idea, increased consumption, a more favorable attitude about a product, etc.? Distribution services goals can be framed in terms of time periods, numbers of deliveries, damaged container rates, or customers' perceptions. Which would most useful or appropriate for a given firm?

Third, useful time frames for effectiveness-efficiency analyses cannot easily be determined. Should such studies be conducted annually with

perhaps quarterly preliminary reviews? How should standards for performance be established for distant time periods, such as one or five years into the future? Obviously the longer run objectives should be supplemented with intermediate targets, but selecting the most useful time schedules would be guesswork until the firm becomes experienced with the process.

Fourth, marketers may argue that their duties are so creative that standards of performance cannot be formalized. Advertising and sales personnel are particularly likely to take this position. These people may feel stifled if they must adjust their behavior to norms or goals which are stated objectively. But these and similar arguments were raised by other functional units in the firm when earlier attempts were made to standardize their jobs.

Fifth, an effectiveness-efficiency system would ideally also involve confirmation-based reporting to confirm activities and data. But in the context of marketing activities, with their focus on perhaps millions of customers, the confirmation procedure would be extremely difficult to institute. Relying on contacts with so many participants, or at least a sampling of them, the effectiveness-efficiency system may be very difficult to implement because of its complexity.

Sixth, a cost breakdown to carry out a segmental analysis to determine effectiveness may differ from a similar breakdown for efficiency purposes. For example, advertising costs can be assigned to territories on the basis of media expenditures in each territory. But the message used may not be assignable to territories; therefore, a different allocation base would be necessary. Problems such as these are surmountable, due in part to electronic data processing, but the choice of allocation bases must still be made.

## CONCLUSION

While a comprehensive marketing control framework would be of great benefit to marketers, a number of difficulties impede its development. In any event, marketing scholars continue to be interested in controlling marketing activities to gain better, or even optimal, levels of performance. As marketers make progress in developing taxonomies in the various functional areas (Tellis 1986; Murphy and Enis 1986), complete marketing control frameworks will eventually follow.

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