MARKETING AUDIT CHARACTERISTICS

The McDonald & Leppard Marketing Audit Model - An Overview

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Executive Summary

The purpose of this paper was to review the McDonald & Leppard Marketing Audit Model. This review looked at the processes involved in the model and drew on the personal experiences of the authors and significant ancillary literature.
In addition the concept of value was reviewed in light of a paper written by Day & Fahey.

The paper finds that the model for the marketing audit put forward by McDonald & Leppard provides a sound framework around which a review of the marketing for a company can be built.

The paper also concludes that the model is perhaps in need of review to take account of contemporary marketing practices and concepts that either were not in existence or have gained significant importance in the marketing process since the article was written in 1991.

Value and its relation to the marketing audit is put in perspective by the article written by Day & Fahey. The paper concludes that there is not one "silver bullet" that can be used in the valuation of a company. A range of valuation methods should be used as whilst methods are not comparable in accuracy or in predicting future value, each calculation adds understanding to what adds value to the business.
The importance of value to the marketing audit is that it is both the starting and finishing point of the marketing audit. Ideally the completion of a marketing audit through to the implementation phase should add residual value to a business.

The frequency of marketing audits is still a moot point as it appears little empirical research has been done on optimizing this process. There is considerable scope for further research in this direction.

The Marketing Audit

The McDonald & Leppard Model

The McDonald & Leppard Marketing Audit Model is a comprehensive set of exercises that a company can go through to develop insight into all aspects of the marketing process as well as providing a framework for planning and implementation. The model is starting from the perspective that best-practice will result in a strong marketing orientation for business, that is the identification and satisfaction of customer needs. The Model is split into twelve discrete sections:

1. Understanding the marketing process.
2. The marketing planning process.
3. Removing the barriers to marketing planning.
4. The customer and market audit.
5. The product audit.
6. Setting marketing objectives and strategies.
7. Advertising and sales promotion.
8. The sales plan.
9. The pricing plan.
10. The distribution plan.
11. Marketing information, forecasting and organizing for marketing planning.
12. Implementing the marketing plan.

Understanding the Marketing Process

The first section take an external view of the market, understanding the forces that can drive changes in customer and competitor behaviour as well as assessing the company's own capabilities and strengths.

The Marketing Planning Process

The next step is to assess the company's current marketing plan and process to develop this. The McDonald & Leppard approach here is what is universally recognised as a logical approach to planning. However, the addition of a Mission Statement for the marketing plan is a novel one. Many marketing departments would include the Corporate Mission Statement into a marketing plan but not necessarily develop a marketing specific statement.

Removing the Barriers to Marketing Planning

The third step in the model outlines an issue which most marketers could relate to which is a planning process lead by financial targets rather than strategic thinking and results in a short-term focus. While the benefits of strategic rather than tactical thinking are known, this area can be at the heart of the issue in terms of the level of marketing orientation a company has and the importance they place on the function.

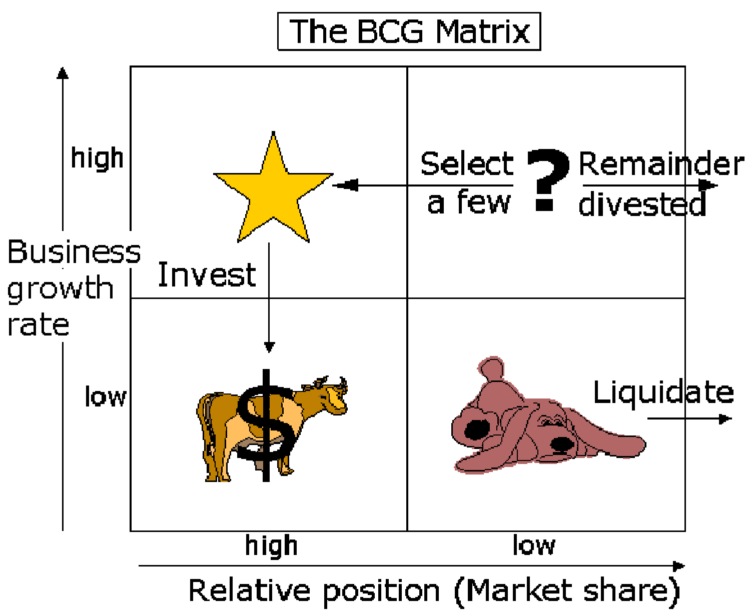
The Customer and Market Audit

Step four relates to a customer and market analysis which can determine the segmentation approach which is adopted. The customer classification systems presented as examples are quite UK focused and perhaps a little dated now. In Australia and New Zealand the industry classification code is the ANZIC code. Further information about these classifications can be sourced at the following link.
http://www.abs.gov.au/Ausstats/abs@.nsf/66f306f503e529a5ca25697e0017661f/7cd8aebba7225c4eca25697e0018faf3!OpenDocument

The Product Audit

Step five looks at ways of assessing the current product portfolio from a benefit analysis, to a Product Lifecycle analysis incorporating two models – the Boston Consulting Group Matrix and the Directional Policy Matrix. A specific issue with the use of these models can be the quality of the information that is put into them. If it is at all questionable this needs to be taken into account when considering the output.

Figure 1



Source: Value Based Management. http://www.valuebasedmanagement.net/methods_bcgmatrix.html

Setting Marketing Objectives and Strategies

The next stage is then to assess the gaps which may exist between the corporate objectives and strategies in place. With all the data for the previous five steps the key elements of a marketing audit have been undertaken. McDonald and Leppard provide a Marketing Audit Checklist which can be followed to identify any areas that may have been missed, but of relevance to the company being audited. Armed with this information, a competitor analysis and then a SWOT analysis can then be undertaken. Identification of assumptions is an important step, this can highlight areas where information used in the audit may not be as reliable as hoped. The most challenging task is then to set marketing objectives, which determine which products or services go to which market. The market strategies are then formulated, which explain how the marketing objectives will be met.

Questions & Comments for discussion

- Does your organisation undertake a marketing audit? If so, what are the characteristics in terms of purpose and scope, frequency, external versus internal etc?
- The marketing orientation of a company is key to potential barriers to the marketing audit. What "signposts" should you look for to gauge the marketing orientation of a company?

Overview - Mc Donald & Leppard Chapters 7 – 12

McDonald and Leppard focus the rest of their attention on the marketing strategy component of the marketing process. They identify the key elements of strategy in line with the Four P's model, (McCarthy 1978) but focusing specifically on Promotion, Price and Place (Distribution). In addition they look at the Market Information or Research and implementation process for the marketing plan.

Advertising and Sales Promotion

McDonald & Leppard introduce indirect communication as being just advertising and sales promotion. They provide clear steps for Advertising which include assessing what you are going to communicate the appropriate creative platform and selecting the medium in four stages:

1. Understanding what the advertising objectives are.
2. A process for setting advertising objectives.
3. A process for selecting appropriate advertising media.
4. A template for developing an advertising plan.

For sales promotions they initially have a process for determining if a promotion is necessary working from the basis of what the problems or issues may be that are affecting sales and how they could potentially be addressed. A worksheet is provided for this process as well as an overview of different types of promotions.
The next stage is developing a plan for a sales promotion, a framework and further template is provided for this.

Given that indirect communication consumes the vast majority of most marketing budgets, the auditing or planning element for this area of strategy is somewhat limited. A number of areas are not mentioned including: public relations, sponsorship, direct marketing and electronic marketing. For some companies, particularly those operating in a business-to-business market, promotions may not be relevant. The marketing mix used by companies is becoming increasingly diverse, yet this is not recognised in this model. In addition one of the key challenges facing marketers is to integrate all communication activities, so that there is a consistent message being delivered to the target market. Marketing communication mix integration is not given enough focus within the model.

Questions & Comments for discussion

- Has the internet component of the marketing mix changed the application of the McDonald & Leppard model?
- "I do not need to advertise, all of my clients come from word of mouth referrals." Comment on this statement.

The Sales Plan

The model outlines three steps:

1. Determining the role of personal communication in the communications mix.
2. Setting quantifiable objectives for the sales force.
3. Managing the sales force.

The role of personal selling in a marketing plan is a contentious one. For many marketers, the organisational struggle between the sales and marketing functions is something they encounter on a daily basis. The sales channel is increasingly complex with on-line/Internet based sales and telesales or call centres becoming increasingly popular given the high costs of a field based sales force. For some industries which involve complex selling, there has been a shift in thinking to relationship management and creating value between two organisations. Discussions of customer relationship management (CRM) are outside the scope of this paper but an example of a CRM flow chart is included for reference in appendix 5. On this basis McDonald & Leppard's assessment of personal selling and customer requirements is focused more on transactional selling and is quite superficial. The objectives that are set – all relate to selling, not a measurement of the value of a relationship.

Questions & Comments for discussion

- How relevant is the sales plan to a totally on line business like Amazon.com?

The Pricing Plan

Pricing is an area that is not consistently treated in all organizations. It can be the domain of either the sales or the marketing departments. This can result in pricing chaos and unclear strategy. The model outlines five exercises for managing price:

1. Setting a competitive price.
2. Selecting the right price.
3. How to use discounts.
4. Understanding the culture of your organisation in relation to price-wars.
5. A test for the marketer on their understanding of price related issues.

On a practical level, in a number of organisations the setting of pricing is not seen as part of the marketing function. This could create difficulties for many marketers territorially in trying to exert influence in an area that could be either the domain of sales or even finance. In a number of industries price deflation presents a number of challenges. As products and services begin to commoditize profit begin to evaporate. The correct management of prices in these industries is paramount.

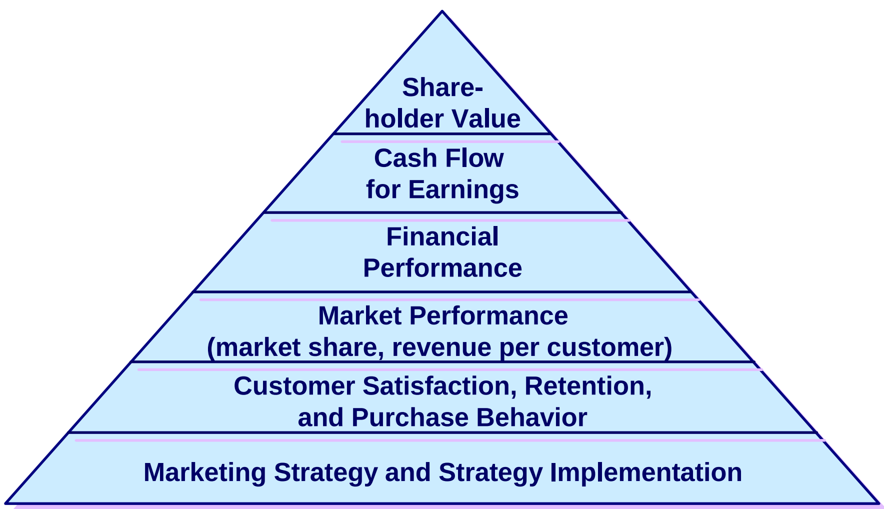
The Distribution Plan

The route to market for many marketers can be an area of great challenge, often riddled with problems and potential customer dissatisfaction. McDonald & Leppard outline a process which demonstrates the strategic significance of distribution to the marketing plan. The six steps in this process are:

1. Determining whether or not you require channel intermediaries.
2. Selecting a suitable intermediary.
3. A customer service audit.
4. Developing a customer service package.
5. Determining a physical distribution approach, taking into account: facilities, inventory, transport, communications and unitization.
6. Developing a distribution plan.

For many customers, delivery an acceptable level of service can be a key 'moment of truth' for them in the interaction with the company and can determine if there is repeat business. A positive experience in this area could ultimately lead to referral and personal testimonials from satisfied customers. This will ultimately lead to increased shareholder value. The marketing process can be thought of as the foundation of creating profitable value which ultimately leads to higher shareholder values.

Figure 2



Marketing Information – Forecasting & Organizing for Marketing Planning.

McDonald & Leppard clearly highlight that the quality of information that a marketer has to work with can have a significant impact on the quality of the planning that a marketer can undertake. Quality however is not just that information is relevant and current it can also relate to the quantity, as too much information can be as bad as a scarcity of information. The Model outlines four relevant exercises:

1. Establishing how much marketing information is needed and how to distribute to the right people in a timely manner.
2. Selecting an appropriate information gathering technique.
3. Approaches to forecasting.
4. Approaches to organisational structure.

The structure of a marketing department can impact the effectiveness of the function. In organisations with great complexity, that cover large geographical areas, structure becomes an issue of even greater significance. However, in looking at organisational issues the Model has neglected to look on an individual level at the specific marketing competences of the people in the marketing function. Some organisations suffer from having ‘amateurs’ rather than marketing professionals to perform vital functions, with the consequence often being a more tactical rather than strategic approach being taken. This can be exacerbated by remuneration systems within an organization that lead to a focus on short term tactical response at the expense of longer term strategic advantage. Organization structure, issues and culture go to the heart of the marketing orientation of a company. For this reason it is suggested that structure deserves more focus than the McDonald and Leppard model.

Implementing the Marketing Plan.

The final element to the model is in the actual implementation of the marketing planning process. McDonald & Leppard outline ten principles of marketing planning:

1. Develop the strategic plan first; the operational plan comes out of this.
2. Put marketing as close as possible to the customer and have marketing and sales reporting to one person.
3. Marketing is an attitude of mind, not a set of procedures.
4. Organize activities around customer groups, not functional activities.
5. A marketing audit must be rigorous. No vague terms should be allowed, and nothing should be hidden. Manager should use tools like portfolio analysis and product life cycle.
6. SWOT analyses should be focused on segments that are critical to the business; concentrate only on key factors which lead to objectives.
7. People must be educated about the planning process.
8. There has to be a plan for planning.
9. All objectives should be prioritized in terms of their urgency and impact.
10. Marketing planning needs the active support of the chief executive and must be appropriate for the culture.

The model focuses on the design of a planning system, outlining nine approaches based on the size of the company and the level of diversity within the market and/or products. It then focuses on the actual execution of the marketing planning process, as a rolling twelve month process starting with the establishment of the Corporate Plan and moving nine months later to implementing the new marketing plan.

"Valuing Market Strategies" – Day & Fahey

It's All About Value.

Value is an interesting construct. While on the surface the concept seems to be absolute and objective, the reality is that it can simultaneously be relative and subjective. The very reason for ascribing value is to communicate a common point around which other common points can be placed. The relative differences between these points become their differing value. There are many and varied ways to ascribe value, these can differ due to perspective, time and relativity. So we truly have a paradox, can we distil a universal means of evaluation or can we only calculate a variety of values and try and narrow the framework through which they are viewed.

The article "Valuing Marketing Strategies" (Day & Fahey 1988) addresses the concept of value(s) and how it/they can be used in relation to marketing decisions. In particular the article draws on the contemporary construct of shareholder value and compares and contrasts this to more traditional value constructs of return on investment and payback periods. It concludes that shareholder value has become a new yardstick that the marketer must acknowledge, if they are to influence strategy within the company. This acknowledgement encompasses an understanding of calculation, sensitivity, strengths and limitations of shareholder value.

> *"In summary, once marketers understand the key relationships that determine how shareholder value is created, they will be better equipped to influence the strategy dialogue within the business." (Day & Fahey 1988)*

So how does value relate to the marketing audit?

Marketing Audit Cycle

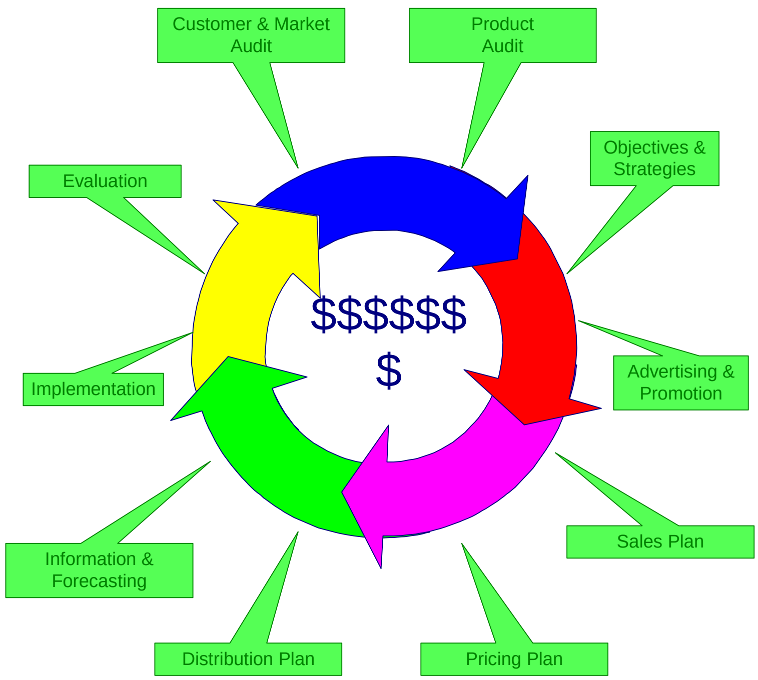
There seems to be little consensus on the optimal frequency of marketing audits. In addition there seems little consensus on whether a "full" marketing audit needs to be undertaken every time. These time frames and scopes seem to be moderated by consumer's change of tastes and preferences, accelerating technological change, increasing intensity of competition, legislative review and numerous other factors that impact a firm or its chosen market. There does seem to be agreement on the fact that a marketing audit should be conducted on a periodic basis.

> *"Some measurements will be made on a systematic, ongoing basis, such as actual sales against target, while others will be made before, possibly during, and definitely after a specific set of activities or tactics, e.g. an advertising or sales promotion campaign with the objective of increasing sales. A third type of measurement, e.g. strategic control measures, needs to be made with*

infrequent regularity, e.g. a marketing audit might be carried out every two years."(Shaw 2002)

Evaluation can be considered as the beginning and end of a circular process that constitutes the marketing audit cycle.
The marketing audit is the basis for developing a new situation analysis, and is therefore the foundation for future objectives and strategies.
Consequently, while the audit is based upon the plan, the subsequent plan is based upon the audit. Thus, we come full circle; having arrived at the final step in the planning process, the first step in developing a new plan has been reached again as well. The transition from evaluation to evaluation ideally should result in increased residual value for the business unit.

Figure 3.



Measures of Success

"The dilemma for the marketing manager is that only short-term results of marketing actions are readily observable, yet short-term profit maximization is not the best paradigm for allocating resources"
(Dekimpe and Hanssens 1999, p. 397).

Day & Fahey argue that there is a change in the measures of success from traditional metrics such as market share, sales or profit increases and return on investment to those that measure shareholder value. The use of shareholder value as a performance metric is based on 2 primary assumptions:

1. It is the company's obligation to maximize returns to shareholders in either dividends or capital appreciation.

2. The value of a company's stock (shares) depends on investors expectations of the cash generation ability of the business unit.

While changes in shareholder value metrics have been used to evaluate investments, it is a recent phenomenon that these are used in terms of marketing management evaluation.
Appendix 1 ranks the most common marketing metrics used by UK companies in a recent study conducted by Ambler, Kokkinaki and Puntoni .

Questions & Comments for discussion

- If increases in shareholder value have been proven as a valid measure of success, why has it not been more widely used to evaluate a company's marketing strategy?
- What measures of success are used in your business?
- Do you consider them to be appropriate in promoting strategic decision making?

Value Creation

> *"Management's objective is to create value by investing at above the cost of capital. Indeed, sustainable value creation is the signature of competitive advantage. And since a company's competitive advantage hinges squarely on the quality and execution of its strategies, competitive strategy analysis is vital to planning and decision-making."* (*Rappaport & Mauboussin 2001)*

Much has been written and many models developed that contribute to the body of work concerning sustainable competitive advantage. Appendix 2 attempts to interrelate many of the more popular models towards the ultimate goal of strategy formulation. It is the works of Rappaport & Mauboussin that links the quality and execution of strategy to sustainable value creation. Day and Fahey argue that shareholder value will increasingly be used as a new performance yardstick. On balance they see this as a good thing, however it does have limitations. Calculation of shareholder value is not straight forward and there may be a perception that the concept is not relevant to strategic decisions or it is too difficult to calculate.

Questions & Comments for discussion

- Is value creation the Holy Grail that it is made out to be? If not what are the alternative objectives of strategy execution?
- "I work for a not-for-profit organization value creation is irrelevant to my company." Comment on this statement.

Value Based Management

> *"…a management approach which puts shareholder value creation at the center of the company philosophy. The maximization of shareholder value directs company strategy, structure and processes; it governs executive remuneration and dictates what measures are used to monitor performance." (KPMG 1999)*

Value based management is considered to be a continuous process. It embraces many of the concepts of the marketing audit as outlined in the McDonald and Leppard model. It does rely on an evaluation processes that are outlined in the Day and Fahey article. Mills, Print and Weinstein (2003) postulate that the single measure of value may not serve value based management well. A range of metrics should be used to determine value creation. These include:

1. Intrinsic value analysis/discounted cash flow valuation. (Day & Fahey)
2. Returns to shareholders.
3. Economic profit.
4. Market to book ratios.

The answer is to employ a multiple of performance measures to obtain a more complete and reliable assessment of the performance. A number of academic studies (Weaver & Weston, Whited, Stern & Stewart) have concluded that there is a high correlation between market value added and alternative financial measures. One metric is not superior to another but contributes towards a balanced judgment.

Woolworths (Australia) employs a variation of value based management in the determination of resource allocation amongst trading divisions. This model has been coined the "Virtuous Double Loop." See appendix 3.

Questions & Comments for discussion

- In choosing a range of performance metrics to judge value creation are we in danger of blurring the focus between strategic and tactical objectives?
- "As long as executive remuneration is tied to short term profit goals the creation of real value is unlikely. If the creation of value was the primary objective, then we would not have the likes of Enron, HIH and One-Tel." Comment?

Valuation Methodology

A detailed analysis of valuation methodologies is outside the scope of this paper. However a variation of shareholder value methodology devised by Rappaport and Mauboussin has been included as an ancillary file. (Price Implied Expectations.xls) This is a variant of the valuation method outlined in Day & Fahey. As previously stated there is a high correlation between many of the valuation models. In terms of the marketing audit it is more relevant to select a range of valuation methods that are suitable for the business unit under audit. The point of valuation is to set some benchmark by which the product of changes in marketing strategy can be measured. It is often difficult to compare one firm or industry against another because of the subjective nature of the valuation method and that there is little consensus in the process of conducting a marketing audit. Companies in this predicament will need to rely on the cyclical nature of the marketing audit (Figure 1.) In this case emphasis will go on keeping the valuation methodology consistent so that comparative performance can be calculated.

Questions & Comments for discussion

- "The role of a marketer is strategic; there is no value in learning how to calculate value. Corporate valuations should be left up to the accountants and just communicated to the marketing department." Comment?

Limitations & Validity of Inputs

As sustainable competitive advantage creates value, the ability to predict the magnitude and longevity of competitive advantage is important. This is not only an input into the marketing audit; it is also an input into the valuation process. Subjective measures are prone to bias. Examples of the types of bias that can influence these inputs are:

1. Availability bias – information is limited to that which is readily available.
2. Selective perception.
3. Humans are naturally optimistic.

There are also a number of limitations that should be taken into account:

1. Shareholder value may capture too narrow a concern with corporate performance in its current context.
2. The model is focused on corporate value and not values. Is this an adequate measure for all types of companies?
3. Impact on stakeholders in the company (other than shareholders) is not taken into account.

Value based management is not just about financial change but is also about cultural change. According to Haspeslagh, Noda & Boulos in a recent study, almost half the companies that adopted value based management (VBM) have met with mediocre success. Some have abandoned the system altogether reverting to more traditional performance measures. Their research found that to successfully implement VBM requires a great deal of patience, effort, money and significant cultural change.

> *"And therein lies the reason for most of the failures: Transforming beliefs in a large organization is arguably is the most difficult of all managerial challenges. (Haspeslagh 2001.)*

Questions & Comments for discussion

- Inputs for the marketing audit and shareholder valuation process require a degree of managerial probing. What are some of the issues that may compromise this information?
- "The marketing department is the last group of people you should ask to self - assess." Comment?

Conclusion

The McDonald and Leppard Audit Model provides a sound framework around which a marketing planning process can be built. They position the Audit, not a discrete activity, but as part of the annual planning cycle.
On a practical level, while professional marketers would not challenge the thinking and intention behind this Model, conducting such a comprehensive audit on an annual basis could prove to be an ambitious exercise and resource stretching.

A number of weaknesses can also be found in the model including: the limited analysis of marketing communication activities, a simplistic approach to the selling process, and a lack of analysis of the competence of the individuals within the marketing function.

In contrast the Day and Leppard paper present a strong challenge to marketers in looking at the contribution marketing makes in terms of shareholder value. The assumption is that metrics can be devised to place a financial value on this contribution. Given that evaluation, even of tactical campaigns is not always perfect, to quantify the value of a marketing strategy is extremely difficult.

The paper's authors recognize that Shareholder Value has it's weaknesses – the value of non financial factors such as brand, reputation, leadership, culture and stakeholder relationships is very difficult to quantify, and existing methodologies are often challenged. Yet, these intangible assets can have a significant impact on the achievement of sustainable competitive advantage.

Clearly this paper presents an opportunity for marketers to look at a form of measurement that is able to quantify the value of a strategic approach to marketing planning – further research is needed and market testing to find a model that is robust and accessible.

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Appendices

Appendix 1

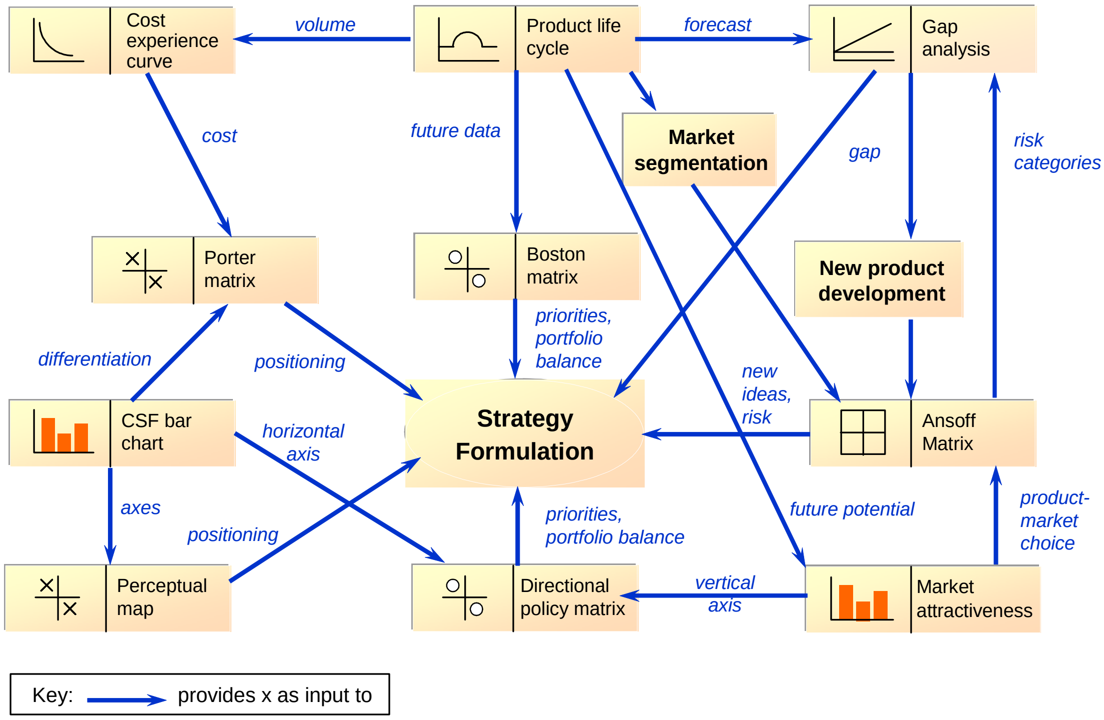
Ranking of Marketing Metrics

1. Profit/Profitability
2. Sales, Value and/or Volume
3. Gross Margin
4. Awareness
5. Market Share (Volume or Value)
6. Number of New Products
7. Relative Price (SOMValue/Volume)
8. Number of Consumer Complaints (Level of dissatisfaction)
9. Consumer Satisfaction
10. Distribution/Availability
11. Total Number of Customers
12. Marketing Spend
13. Perceived Quality/esteem
14. Loyalty/Retention
15. Relative Perceived Quality

Ambler T, Kokkinaki F, and Puntoni S. (2004)

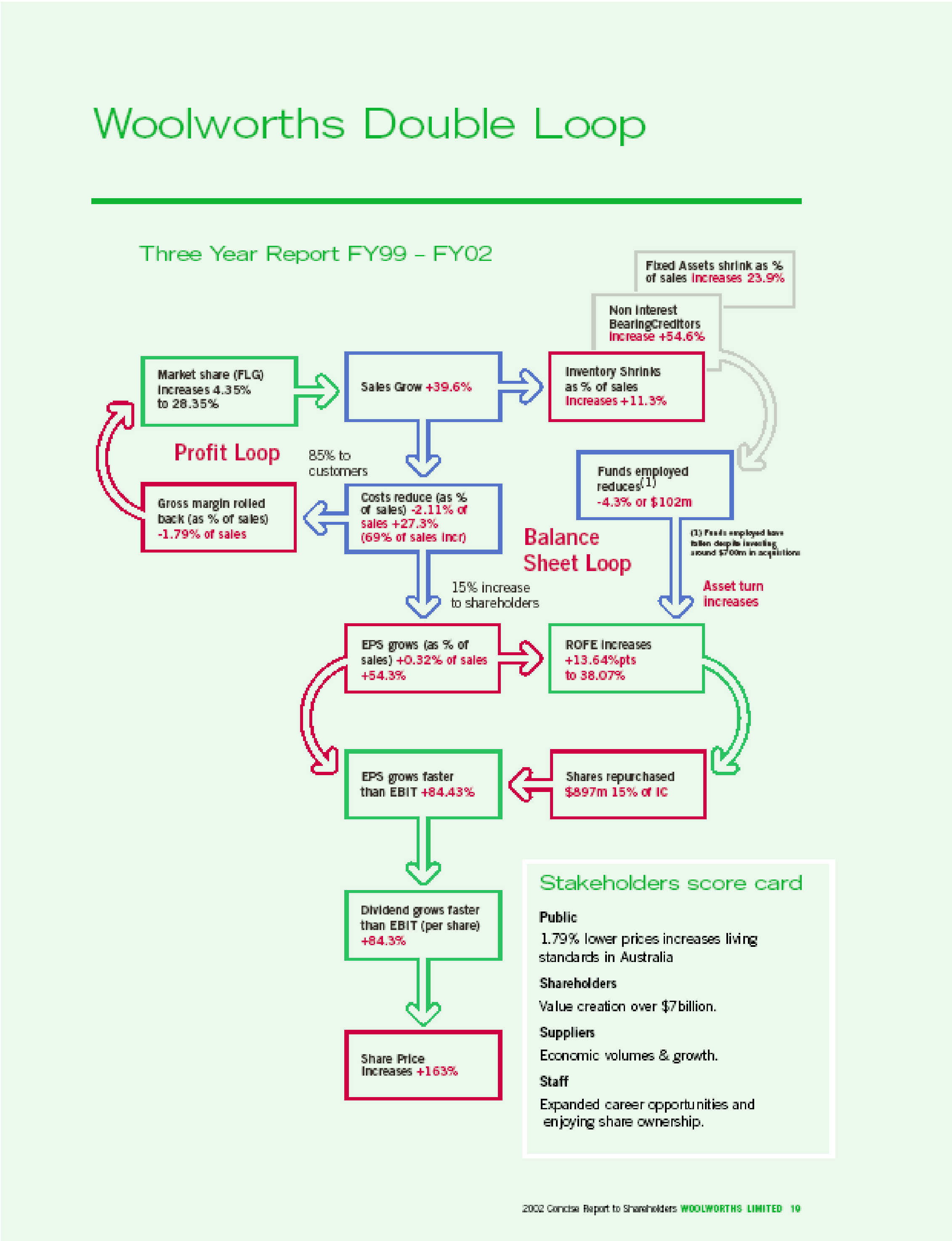
Appendix 2

Major Model Relationships used in Strategic Marketing Planning.



Source Competitive Marketing Strategy Master Class Cranfield University School of Management

Appendix 3


Woolworths Double Loop
Three Year Report FY99 – FY02
Fixed Assets shrink as % of sales increases 23.9%
Non Interest BearingCreditors increase +54.6%
Market share (FLG) increases 4.35% to 28.35%
Sales Grow +39.6%
Inventory Shrinks as % of sales increases +11.3%
Profit Loop
85% to customers
Funds employed reduces(1) -4.3% or $102m
Gross margin rolled back (as % of sales) -1.79% of sales
Costs reduce (as % of sales) -2.11% of sales +27.3% (69% of sales incr)
Balance Sheet Loop
Asset turn increases
15% increase to shareholders
EPS grows (as % of sales) +0.32% of sales +54.3%
ROFE increases +13.64%pts to 38.07%
EPS grows faster than EBIT +84.43%
Shares repurchased $897m 15% of IC
Dividend grows faster than EBIT (per share) +84.3%
Share Price increases +163%
Stakeholders score card
Public
1.79% lower prices increases living standards in Australia
Shareholders
Value creation over $7billion.
Suppliers
Economic volumes & growth.
Staff
Expanded career opportunities and enjoying share ownership.
2002 Concise Report to Shareholders WOOLWORTHS LIMITED 19

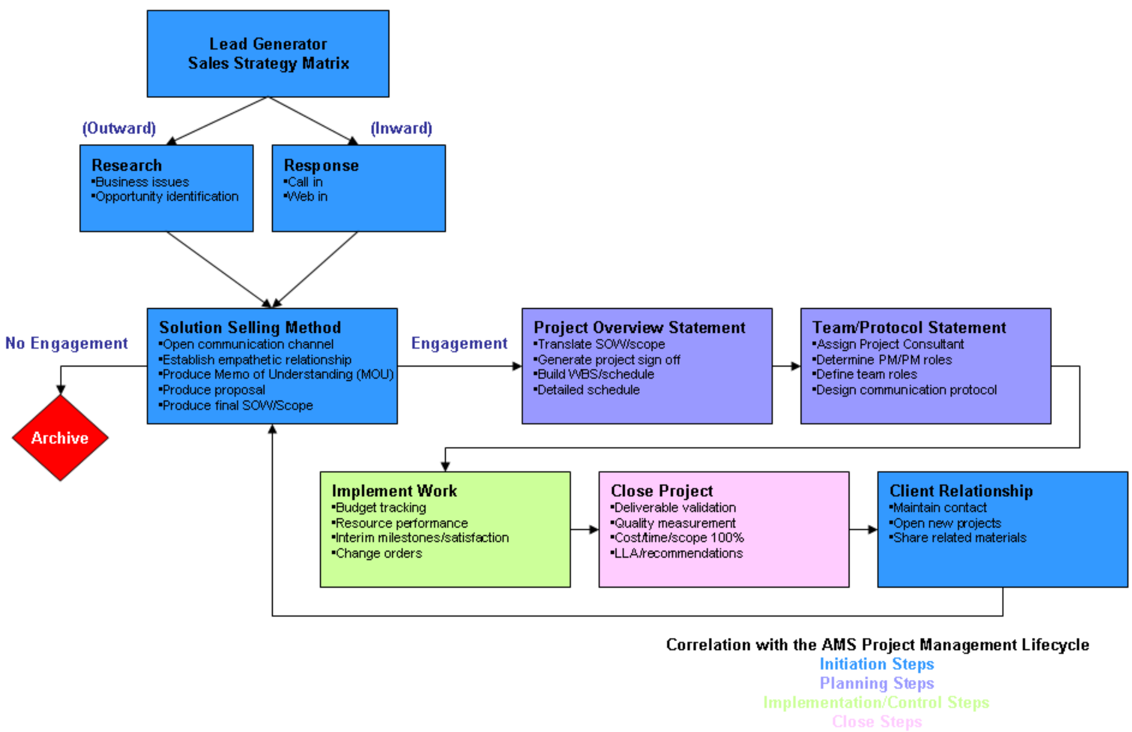
Appendix 4

Basic SWOT Analysis

Strengths	Weaknesses
- specialist marketing expertise - exclusive access to natural resources - patents - new, innovative product or service - location of your business - cost advantage through proprietary know-how - quality processes and procedures - strong brand or reputation	- lack of marketing expertise - undifferentiated products and service (i.e. in relation to your competitors) - location of your business - competitors have superior access to distribution channels - poor quality goods or services - damaged reputation
Opportunities	**Threats**
- developing market (China, the Internet) - mergers, joint ventures or strategic alliances - moving into new attractive market segments - a new international market - loosening of regulations - removal of international trade barriers - a market led by a weak competitor	- a new competitor in your home market - price war - competitor has a new, innovative substitute product or service - new regulations - increased trade barriers - taxation may be introduced on your product or service

Appendix 5

Client Relationship Methodology (CRM)



Source: http://www.amsconsulting.com/CRM%20model.htm