

The Marketing Audit Comes of Age

Philip Kotler, Northwestern University

William Gregor, Management Analysis Center

William Rodgers, Management Analysis Center

A promising tool for evaluating and improving a company's marketing operations is the *marketing audit*. A marketing audit is an effort to assess the effectiveness and efficiency of marketing policies, strategies, practices, and procedures against the firm's opportunities, objectives, and resources. This article answers several questions frequently asked about the marketing audit: How does a marketing audit differ from other types of marketing review? What is the methodology of a marketing audit? Do marketing audits have to be conducted by outsiders to be useful? What are the major benefits of a marketing audit and what are the major limitations?
Ed.

Comparing the marketing strategies and tactics of business units today versus ten years ago, the most striking impression is one of marketing strategy obsolescence. Ten years ago U.S. automobile companies were gearing up for their second postwar race to produce the largest car with the highest horsepower. Today companies are selling increasing numbers of small and medium-sized cars and fuel economy is a major selling point. Ten years ago computer companies were introducing ever-more powerful hardware for more sophisticated uses. Today they emphasize mini- and micro-computers and software.

It is not even necessary to take a ten-year period to show the rapid obsolescence of marketing strategies. The growth economy of 1950-1970 has been superseded by a volatile economy which produces new strategic surprises almost monthly. Competitors launch new products, customers switch their business, distributors lose their effectiveness, advertising costs skyrocket, government regulations are announced, and consumer groups attack. These changes represent both opportunities and problems and may demand periodic reorientations of the company's marketing operations.

Many companies feel that their marketing operations need regular reviews and overhauls but do not know how to proceed. Some companies simply make many small changes that are economically and politically feasible, but fail to get to the heart of the matter. True, the company develops an annual marketing plan but management normally does not take a deep and objective look at the marketing strategies, policies, organizations, and operations on a recurrent basis. At the other extreme, companies install aggressive new top marketing management hoping to shake down the marketing cobwebs. In between there must be more orderly ways

to reorient marketing operations to changed environments and opportunities.

Enter the Marketing Audit

One hears more talk today about the *marketing audit* as being the answer to evaluating marketing practice just as the public accounting audit is the tool for evaluating company accounting practice. This might lead one to conclude that the marketing audit is a new idea and also a very distinct methodology. Neither of these conclusions is true.

The marketing audit as an idea dates back to the early fifties. Rudolph Dallmeyer, a former executive in Booz-Allen-Hamilton, remembers conducting marketing audits as early as 1952. Robert J. Lavidge, President of Elrick and Lavidge, dates his firm's performance of marketing audits to over two decades ago. In 1959, the American Management Associations published an excellent set of papers on the marketing audit under the title *Analyzing and Improving Marketing Performance*, Report No. 32, 1959. During the 1960s, the marketing audit received increasing mention in the lists of marketing services of management consulting firms. It was not until the turbulent seventies, however, that it began to penetrate management awareness as a possible answer to its needs.

As for whether the marketing audit has reached a high degree of methodological sophistication, the answer is generally no. Whereas two certified public accountants will handle an audit assignment using approximately the same methodology, two marketing auditors are likely to bring different conceptions of the auditing process to their task. However, a growing consensus on the major characteristics of a marketing audit is emerging and we can expect considerable progress to occur in the next few years.

In its fullest form and concept, a marketing audit has four basic characteristics. The first and most important is that it is *broad* rather than narrow in focus. The term "marketing audit" should be reserved for a *horizontal (or comprehensive) audit* covering the company's marketing environment, objectives, strategies, organization, and systems. In contrast, a *vertical (or in-depth) audit* occurs when management decides to take a deep look into some key marketing function, such as sales force management. A vertical audit should properly be called by the function that is being audited, such as a sales force audit, an advertising audit, or a pricing audit.

A second characteristic feature of a marketing audit is that it is conducted by someone who is *independent* of the operation that is being evaluated. There is some loose talk about self-audits, where a manager follows a checklist of questions concerning his own operation to make sure that he is touching all the bases.¹ Most experts would agree, however, that

¹ Many useful checklist questions for marketers are found in C. Eldridge, *The Management of the Marketing Function* (New York: Association of National Advertisers, 1967).

the self-audit, while it is always a useful step that a manager should take, does not constitute a *bona fide* audit because it lacks objectivity and independence. Independence can be achieved in two ways. The audit could be an *inside audit* conducted by a person or group inside the company but outside of the operation being evaluated. Or it could be an *outside audit* conducted by a management consulting firm or practitioner.

The third characteristic of a marketing audit is that it is *systematic*. The marketing auditor who decides to interview people inside and outside the firm at random, asking questions as they occur to him, is a "visceral" auditor without a method. This does not mean that he will not come up with very useful findings and recommendations; he may be very insightful. However, the effectiveness of the marketing audit will normally increase to the extent that it incorporates an orderly sequence of diagnostic steps, such as there are in the conduct of a public accounting audit.

A final characteristic that is less intrinsic to a marketing audit but nevertheless desirable is that it be conducted *periodically*. Typically, evaluations of company marketing effort are commissioned when sales have turned down sharply, sales force morale has fallen, or other problems have occurred at the company. The fact is, however, that companies are thrown into a crisis partly because they have failed to review their assumptions and to change them during good times. A marketing audit conducted when things are going well can often help make a good situation even better and also indicate changes needed to prevent things from turning sour.

The above ideas on a marketing audit can be brought together into a single definition:

A marketing audit is a *comprehensive, systematic, independent, and periodic* examination of a company's — or business unit's — marketing environment, objectives, strategies, and activities with a view of determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

What Is the Marketing Audit Process?

How is a marketing audit performed? Marketing auditing follows the simple three-step procedure shown in Figure 1.

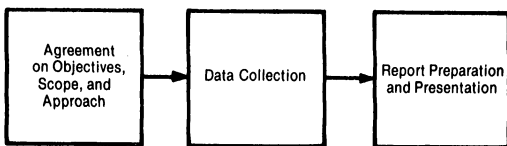


Figure 1 Steps in a Marketing Audit

Setting the Objectives and Scope

The first step calls for a meeting between the company officer(s) and a potential auditor to explore the nature of the marketing operations and the potential value of a marketing audit. If the company officer is convinced of the potential benefits of a marketing audit, he and the auditor have to work out an agreement on the objectives, coverage, depth, data sources, report format, and the time period for the audit.

Consider the following actual case. A plumbing and heating supplies wholesaler with three branches invited a marketing consultant to prepare an audit of its overall marketing policies and operations. Four major objectives were set for the audit:

- Determine how the market views the company and its competitors.
- Recommend a pricing policy.
- Develop a product evaluation system.
- Determine how to improve the sales activity in terms of the deployment of the sales force, the level and type of compensation, the measurement of performance, and the addition of new salesmen.

Furthermore, the audit would cover the marketing operations of the company as a whole and the operations of each of the three branches, with particular attention to one of the branches. The audit would focus on the marketing operations but also include a review of the purchasing and inventory systems since they intimately affect marketing performance.

The company would furnish the auditor with published and private data on the industry. In addition, the auditor would contact suppliers of manufactured plumbing supplies for additional market data and contact wholesalers outside the company's market area to gain further information on wholesale plumbing and heating operations. The auditor would interview all the key corporate and branch management, sales and purchasing personnel, and would ride with several of those salesmen on their calls. Finally, the auditor would interview a sample of the major plumbing and heating contractor customers in the market areas of the two largest branches.

It was decided that the report format would consist of a draft report of conclusions and recommendations to be reviewed by the president and vice-president of marketing, and then delivered to the executive committee which included the three branch managers. Finally, it was decided that the audit findings would be ready to present within six to eight weeks.

Gathering the Data

The bulk of an auditor's time is spent in gathering data. Although we talk of a single auditor, an auditing team is usually involved when the project is large. A detailed plan as to who is to be interviewed by whom, the

questions to be asked, the time and place of contact, and so on, has to be carefully prepared so that auditing time and cost are kept to a minimum. Daily reports of the interviews are to be written up and reviewed so that the individual or team can spot new areas requiring exploration while data are still being gathered.

The cardinal rule in data collection is not to rely solely for data and opinion on those being audited. Customers often turn out to be the key group to interview. Many companies do not really understand how their customers see them and their competitors, nor do they fully understand customer needs. This is vividly demonstrated in Figure 2 which shows the results of asking end users, company salesmen, and company marketing personnel for their views of the importance of different factors affecting the user's selection of a manufacturer. According to the figure, customers look first and foremost at the quality of technical support services, followed by prompt delivery, followed by quick response to customer needs. Company salesmen think that company reputation, however, is the most important factor in customer choice, followed by quick response to customer needs and technical support services. Those who plan marketing strategy have a different opinion. They see company price and product quality as the two major factors in buyer choice, followed by quick response to customer needs. Clearly, there is lack of consonance between what buyers say they want, what company salesmen are responding to, and what company marketing planners are emphasizing. One of the major contributions of marketing auditors is to expose these discrepancies and suggest ways to improve marketing consensus.

Preparing and Presenting the Report

The marketing auditor will be developing tentative conclusions as the data comes in. It is a sound procedure for him to meet once or twice with the company officer before the data collection ends to outline some initial findings to see what reactions and suggestions they produce.

When the data gathering phase is over, the marketing auditor prepares notes for a visual and verbal presentation to the company officer or small group who hired him. The presentation consists of restating the objectives, showing the main findings, and presenting the major recommendations. Then, the auditor is ready to write the final report, which is largely a matter of putting the visual and verbal material into a good written communication. The company officer(s) will usually ask the auditor to present the report to other groups in the company. If the report calls for deep debate and action, the various groups hearing the report should organize into subcommittees to do follow-up work with another meeting to take place some weeks later. The most valuable part of the marketing audit often lies not so much in the auditor's specific recommendations but in the process that the managers of the company begin to go through to assimilate

Factor	All Users Rank	Company Salesmen Rank	Company Non-Sales Personnel Rank
Reputation	5	①	4
Extension of Credit	9	11	9
Sales Representatives	8	5	7
Technical Support Services	①	△3	6
Literature and Manuals	11	10	11
Prompt Delivery	□2	4	5
Quick Response to Customer Needs	△3	□2	△3
Product Price	6	6	①
Personal Relationships	10	7	8
Complete Product Line	7	9	10
Product Quality	4	8	□2

Figure 2 Factors in the Selection of a Manufacturer*

*Marketing and Distribution Audit, A Service of Decision Sciences Corporation, p. 32. Used with the permission of the Decision Sciences Corporation.

late, debate, and develop their own concept of the needed marketing action.

Marketing Audit Procedures for an Inside Audit

Companies that conduct internal marketing audits show interesting variations from the procedures just outlined. International Telephone and Telegraph, for example, has a history of forming corporate teams and sending them into weak divisions to do a complete business audit, with a heavy emphasis on the marketing component. Some teams stay on the job, often taking over the management.

General Electric's corporate consulting division offers help to various divisions on their marketing problems. One of its services is a marketing audit in the sense of a broad, independent, systematic look at the marketing picture in a division. However, the corporate consulting division gets few requests for a marketing audit as such. Most of the requests are for specific marketing studies or problem-solving assistance.

The 3M Company uses a very interesting and unusual internal marketing plan audit procedure. A marketing plan audit office with a small staff is located at corporate headquarters. The main purpose of the 3M marketing plan audit is to help the divisional marketing manager improve the marketing planning function, as well as come up with better strategies and tactics. A divisional marketing manager phones the marketing plan audit office and invites an audit. There is an agreement that only he will see the results and it is up to him whether he wants wider distribution.

The audit centers around a marketing plan for a product or product line that the marketing manager is preparing for the coming year. This plan is reviewed at a personal presentation by a special team of six company marketing executives invited by the marketing plan audit office. A new team is formed for each new audit. An effort is made to seek out those persons within 3M (but not in the audited division) who can bring the best experience to bear on the particular plan's problems and opportunities. A team typically consists of a marketing manager from another division, a national sales manager, a marketing executive with a technical background, a few others close to the type of problems found in the audited plan, and another person who is totally unfamiliar with the market, the product, or the major marketing techniques being used in the plan. This person usually raises some important points others forget to raise, or do not ask because "everyone probably knows about that anyway."

The six auditors are supplied with a summary of the marketing manager's plan about ten days before an official meeting is held to review the plan. On the audit day, the six auditors, the head of the audit office, and the divisional marketing manager gather at 8:30 A.M. The marketing manager makes a presentation for about an hour describing the division's competitive situation, the long-run strategy, and the planned tactics. The auditors proceed to ask hard questions and debate certain points with the marketing manager and each other. Before the meeting ends that day, the auditors are each asked to fill out a marketing plan evaluation form consisting of questions that are accompanied by numerical rating scales and room for comments.

These evaluations are analyzed and summarized after the meeting. Then the head of the audit office arranges a meeting with the divisional marketing manager and presents the highlights of the auditor's findings and recommendations. It is then up to the marketing manager to take the next steps.

Components of the Marketing Audit

A major principle in marketing audits is to start with the marketplace first and explore the changes that are taking place and what they imply in the way of problems and opportunities. Then the auditor moves to examine the company's marketing objectives and strategies, organization, and systems. Finally he may move to examine one or two key functions in more detail that are central to the marketing performance of that company. However, some companies ask for less than the full range of auditing steps in order to obtain initial results before commissioning further work. The company may ask for a marketing environment audit, and if satisfied, then ask for a marketing strategy audit. Or it might ask for a marketing organization audit first, and later ask for a marketing environment audit.

We view a full marketing audit as having six major components, each having a semiautonomous status if a company wants less than a full marketing audit. The six components and their logical diagnostic sequence are discussed below. The major auditing questions connected with these components are gathered together in Appendix A at the end of this article.

Marketing Environment Audit

By marketing environment, we mean both the *macro-environment* surrounding the industry and the *task environment* in which the organization intimately operates. The macro-environment consists of the large scale forces and factors influencing the company's future over which the company has very little control. These forces are normally divided into economic-demographic factors, technological factors, political-legal factors, and social-cultural factors. The marketing auditor's task is to assess the key trends and their implications for company marketing action. However, if the company has a good long-range forecasting department, then there is less of a need for a macro-environment audit.

The marketing auditor may play a more critical role in auditing the company's task environment. The task environment consists of markets, customers, competitors, distributors and dealers, suppliers, and marketing facilitators. The marketing auditor can make a contribution by going out into the field and interviewing various parties to assess their current thinking and attitudes and bringing them to the attention of management.

Marketing Strategy Audit

The marketing auditor then proceeds to consider whether the company's marketing strategy is well-postured in the light of the opportunities and problems facing the company. The starting point for the marketing strategy audit is the corporate goals and objectives followed by the marketing objectives. The auditor may find the objectives to be poorly stated, or he may find them to be well-stated but inappropriate given the company's resources and opportunities. For example, a chemical company had set a

sales growth objective for a particular product line at 15 percent. However, the total market showed no growth and competition was fierce. Here the auditor questioned the basic sales growth objective for that product line. He proposed that the product line be reconsidered for a maintenance or harvest objective at best and that the company should look for growth elsewhere.

Even when a growth objective is warranted, the auditor will want to consider whether management has chosen the best strategy to achieve that growth.

Marketing Organization Audit

A complete marketing audit would have to cover the question of the effectiveness of the marketing and sales organization, as well as the quality of interaction between marketing and other key management functions such as manufacturing, finance, purchasing, and research and development.

At critical times, a company's marketing organization must be revised to achieve greater effectiveness within the company and in the marketplace. Companies without product management systems will want to consider introducing them; companies with these systems may want to consider dropping them, or trying product teams instead. Companies may want to redefine the role concept of a product manager from being a promotional manager (concerned primarily with volume) to a business manager (concerned primarily with profit). There is the issue of whether decision-making responsibility should be moved up from the brand level to the product level. There is the perennial question of how to make the organization more market-responsive including the possibility of replacing product divisions with market-centered divisions. Finally, sales organizations often do not fully understand marketing. In the words of one vice-president of marketing: "It takes about five years for us to train sales managers to think marketing."

Marketing Systems Audit

A full marketing audit then turns to examine the various systems being used by marketing management to gather information, plan, and control the marketing operation. The issue is not the company's marketing strategy or organization per se but rather the procedures used in some or all of the following systems: sales forecasting, sales goal and quota setting, marketing planning, marketing control, inventory control, order processing, physical distribution, new products development, and product pruning.

The marketing audit may reveal that marketing is being carried on without adequate systems of planning, implementation, and control. An audit of a consumer products division of a large company revealed that decisions about which products to carry and which to eliminate were made

by the head of the division on the basis of his intuitive feeling with little information or analysis to guide the decisions. The auditor recommended the introduction of a new product screening system for new products and an improved sales control system for existing products. He also observed that the division prepared budgets but did not carry out formal marketing planning and hardly any research into the market. He recommended that the division establish a formal marketing planning system as soon as possible.

Marketing Productivity Audit

A full marketing audit also includes an effort to examine key accounting data to determine where the company is making its real profits and what, if any, marketing costs could be trimmed. Decision Sciences Corporation, for example, starts its marketing audit by looking at the accounting figures on sales and associated costs of sales. Using marketing cost accounting principles,² it seeks to measure the marginal profit contribution of different products, end user segments, marketing channels, and sales territories.

We might argue that the firm's own controller or accountant should do the job of providing management with the results of marketing cost analysis. A handful of firms have created the job position of marketing controllers who report to financial controllers and spend their time looking at the productivity and validity of various marketing costs. Where an organization is doing a good job of marketing cost analysis, it does not need a marketing auditor to study the same. But most companies do not do careful marketing cost analysis. Here a marketing auditor can pay his way by simply exposing certain economic and cost relations which indicate waste or conceal unexploited marketing opportunities.

Zero-based budgeting³ is another tool for investigating and improving marketing productivity. In normal budgeting, top management allots to each business unit a percentage increase (or decrease) of what it got last time. The question is not raised whether that basic budget level still makes sense. The manager of an operation should be asked what he would basically need if he started his operation from scratch and what it would cost. What would he need next and what would it cost? In this way, a budget is built from the ground up reflecting the true needs of the operation. When this was applied to a technical sales group within a large industrial goods company, it became clear that the company had three or four extra technical salesmen on its payroll. The manager admitted to the redundancy but argued that if a business upturn came, these men would be needed to tap the potential. In the meantime, they were carried on the payroll for two years in the expectation of a business upturn.

² See P. Kotler, *Marketing Management Analysis, Planning and Control* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1976), pp. 457-462.

³ See P. J. Stonich, "Zero-Base Planning — A Management Tool," *Managerial Planning*, July-August 1976, pp. 1-4.

Marketing Function Audit

The work done to this point might begin to point to certain key marketing functions which are performing poorly. The auditor might spot, for example, sales force problems that go very deep. Or he might observe that advertising budgets are prepared in an arbitrary fashion and such things as advertising themes, media, and timing are not evaluated for their effectiveness. In these and other cases, the issue becomes one of notifying management of the desirability of one or more marketing function audits if management agrees.

Which Companies Can Benefit Most from a Marketing Audit?

All companies can benefit from a competent audit of their marketing operations. However, a marketing audit is likely to yield the highest payoff in the following companies and situations:

- *Production-Oriented and Technical-Oriented Companies.* Many manufacturing companies have their start in a love affair with a certain product. Further products are added that appeal to the technical interests of management, usually with insufficient attention paid to their market potential. The feeling in these companies is that marketing is paid to sell what the company decides to make. After some failures with its "better mousetraps," management starts getting interested in shifting to a market orientation. But this calls for more than a simple declaration by top management to study and serve the customer's needs. It calls for a great number of organizational and attitudinal changes that must be introduced carefully and convincingly. An auditor can perform an important service in recognizing that a company's problem lies in its production orientation, and in guiding management toward a market orientation.

- *Troubled Divisions.* Multidivision companies usually have some troubled divisions. Top management may decide to use an auditor to assess the situation in a troubled division rather than rely solely on the division management's interpretation of the problem.

- *High Performing Divisions.* Multidivision companies might want an audit of their top dollar divisions to make sure that they are reaching their highest potential, and are not on the verge of a sudden reversal. Such an audit may also yield insights into how to improve marketing in other divisions.

- *Young Companies.* Marketing audits of emerging small companies or young divisions of large companies can help to lay down a solid marketing approach at a time when management faces a great degree of market inexperience.

- *Nonprofit Organizations.* Administrators of colleges, museums, hospitals, social agencies, and churches are beginning to think in marketing terms, and the marketing audit can serve a useful educational as well as diagnostic purpose.

What Are the Problems and Pitfalls of Marketing Audits?

While the foregoing has stressed the positive aspects of marketing audits and their utility in a variety of situations, it is important to note some of the problems and pitfalls of the marketing audit process. Problems can occur in the objective-setting step, the data collection step, or the report presentation step.

Setting Objectives

When the marketing audit effort is being designed by the auditor and the company officer who commissioned the audit, several problems will be encountered. For one thing, the objectives set for the audit are based upon the company officer's and auditor's best *a priori* notions of what the key problem areas are for the audit to highlight. However, new problem areas may emerge once the auditor begins to learn more about the company. The original set of objectives should not constrain the auditor from shifting his priorities of investigation.

Similarly, it may be necessary for the auditor to use different sources of information than envisioned at the start of the audit. In some cases this may be because some information sources he had counted on became unavailable. In one marketing audit, the auditor had planned to speak to a sample of customers for the company's electro-mechanical devices, but the company officer who hired him would not permit him to do so. In other cases, a valuable new source of information may arise that was not recognized at the start of the audit. For example, the auditor for an air brake system manufacturer found as a valuable source of market intelligence a long-established manufacturers' representatives firm that approached the company after the audit had begun.

Another consideration at the objective-setting stage of the audit is that the management most affected by the audit must have full knowledge of the purposes and scope of the audit. Audits go much more smoothly when the executive who calls in the auditor either brings the affected management into the design stage, or at least has a general introductory meeting where the auditor explains his procedures and answers questions from the people in the affected business.

Data Collection

Despite reassurances by the auditor and the executive who brought him in, there will still be some managers in the affected business who will feel threatened by the auditor. The auditor must expect this, and realize that an individual's fears and biases may color his statements in an interview.

From the onset of the audit, the auditor must guarantee and maintain confidentiality of each individual's comments. In many audits, personnel in the company will see the audit as a vehicle for unloading their negative feelings about the company or other individuals. The auditor can learn a lot

from these comments, but he must protect the individuals who make them. The auditor must question interviewees in a highly professional manner to build their confidence in him, or else they will not be entirely honest in their statements.

Another area of concern during the information collection step is the degree to which the company executive who brought in the auditor will try to guide the audit. It will be necessary for this officer and the auditor to strike a balance in which the executive provides some direction, but not too much. While overcontrol is the more likely excess of the executive, it is possible to undercontrol. When the auditor and the company executive do not have open and frequent lines of communication during the audit, it is possible that the auditor may place more emphasis on some areas and less on others than the executive might have desired. Therefore, it is the responsibility of both the auditor and the executive who brought him in to communicate frequently during the audit.

Report Presentation

One of the biggest problems in marketing auditing is that the executive who brings in the auditor, or the people in the business being audited, may have higher expectations about what the audit will do for the company than the actual report seems to offer. In only the most extreme circumstances will the auditor develop surprising panaceas or propose startling new opportunities for the company. More likely, the main value of his report will be that it places priorities on ideas and directions for the company, many of which have already been considered by some people within the audited organization. In most successful audits, the auditor, in his recommendations, makes a skillful combination of his general and technical marketing background (e.g., designs of salesman's compensation systems, his ability to measure the size and potential of markets) with some opportunistic ideas that people in the audited organization have already considered, but do not know how much importance to place upon them. However, it is only in the company's implementation of the recommendations that the payoff to the company will come.

Another problem at the conclusion of the audit stems from the fact that most audits seem to result in organizational changes. Organizational changes are a common outcome because the audit usually identifies new tasks to be accomplished and new tasks demand people to do them. One thing the auditor and the executive who brought him in must recognize, however, is that organizational promotions and demotions are exclusively the executive's decision. It is the executive who has to live with the changes once the auditor has gone, not the auditor. Therefore, the executive should not be lulled into thinking that organizational moves are any easier because the auditor may have recommended them.

The final problem, and this is one facing the auditor, is that important

parts of an audit may be implemented incorrectly or not implemented at all, by the executive who commissioned the audit. Non-implementation of key parts of the audit undermines the whole effectiveness of the audit.

Summary

The marketing audit is one important answer to the problem of evaluating the marketing performance of a company or one of its business units. Marketing audits are distinguished from other marketing exercises in being *comprehensive, independent, systematic, and periodic*. A full marketing audit would cover the company's (or division's) external environment, objectives, strategies, organization, systems, and functions. If the audit covers only one function, such as sales management or advertising, it is best described as a marketing function audit rather than a marketing audit. If the exercise is to solve a current problem, such as entering a market, setting a price, or developing a package, then it is not an audit at all.

The marketing audit is carried out in three steps: developing an agreement as to objectives and scope; collecting the data; and presenting the report. The audit can be performed by a competent outside consultant or by a company auditing office at headquarters.

The possible findings of an audit include detecting unclear or inappropriate marketing objectives, inappropriate strategies, inappropriate levels of marketing expenditures, needed improvements in organization, and needed improvements in systems for marketing information, planning, and control. Companies that are most likely to benefit from a marketing audit include production-oriented companies, companies with troubled or highly vulnerable divisions, young companies, and nonprofit organizations.

Many companies today are finding that their premises for marketing strategy are growing obsolete in the face of a rapidly changing environment. This is happening to company giants such as General Motors and Sears as well as smaller firms that have not provided a mechanism for recycling their marketing strategy. The marketing audit is not the full answer to marketing strategy recycling but does offer one major mechanism for pursuing this desirable and necessary task.

APPENDIX A — COMPONENTS OF A MARKETING AUDIT

The Marketing Environment Audit

I. Macro-Environment

Economic-Demographic

1. What does the company expect in the way of inflation, material shortages, unemployment, and credit availability in the short run, intermediate run, and long run?
2. What effect will forecasted trends in the size, age distribution, and regional distribution of population have on the business?

Technology

1. What major changes are occurring in product technology? In process technology?
2. What are the major generic substitutes that might replace this product?

Political-Legal

1. What laws are being proposed that may affect marketing strategy and tactics?
2. What federal, state, and local agency actions should be watched? What is happening in the areas of pollution control, equal employment opportunity, product safety, advertising, price control, etc., that is relevant to marketing planning?

Social-Cultural

1. What attitudes is the public taking toward business and toward products such as those produced by the company?
2. What changes are occurring in consumer life styles and values that have a bearing on the company's target markets and marketing methods?

II. Task Environment

Markets

1. What is happening to market size, growth, geographical distribution, and profits?
2. What are the major market segments? What are their expected rates of growth? Which are high opportunity and low opportunity segments?

Customers

1. How do current customers and prospects rate the company and its competitors, particularly with respect to reputation, product quality, service, sales force, and price?
2. How do different classes of customers make their buying decisions?

3. What are the evolving needs and satisfactions being sought by the buyers in this market?

Competitors

1. Who are the major competitors? What are the objectives and strategy of each major competitor? What are their strengths and weaknesses? What are the sizes and trends in market shares?
2. What trends can be foreseen in future competition and substitutes for this product?

Distribution and Dealers

1. What are the main trade channels bringing products to customers?
2. What are the efficiency levels and growth potentials of the different trade channels?

Suppliers

1. What is the outlook for the availability of different key resources used in production?
2. What trends are occurring among suppliers in their pattern of selling?

Facilitators

1. What is the outlook for the cost and availability of transportation services?
2. What is the outlook for the cost and availability of warehousing facilities?
3. What is the outlook for the cost and availability of financial resources?
4. How effectively is the advertising agency performing? What trends are occurring in advertising agency services?

Marketing Strategy Audit

Marketing Objectives

1. Are the corporate objectives clearly stated and do they lead logically to the marketing objectives?
2. Are the marketing objectives stated in a clear form to guide marketing planning and subsequent performance measurement?
3. Are the marketing objectives appropriate, given the company's competitive position, resources, and opportunities? Is the appropriate strategic objective to build, hold, harvest, or terminate this business?

Strategy

1. What is the core marketing strategy for achieving the objectives? Is it a sound marketing strategy?
2. Are enough resources (or too much resources) budgeted to accomplish the marketing objectives?

3. Are the marketing resources allocated optimally to prime market segments, territories, and products of the organization?
4. Are the marketing resources allocated optimally to the major elements of the marketing mix, i.e., product quality, service, sales force, advertising, promotion, and distribution?

Marketing Organization Audit

Formal Structure

1. Is there a high level marketing officer with adequate authority and responsibility over those company activities that affect the customer's satisfaction?
2. Are the marketing responsibilities optimally structured along functional, product, end user, and territorial lines?

Functional Efficiency

1. Are there good communication and working relations between marketing and sales?
2. Is the product management system working effectively? Are the product managers able to plan profits or only sales volume?
3. Are there any groups in marketing that need more training, motivation, supervision, or evaluation?

Interface Efficiency

1. Are there any problems between marketing and manufacturing that need attention?
2. What about marketing and R&D?
3. What about marketing and financial management?
4. What about marketing and purchasing?

Marketing Systems Audit

Marketing Information System

1. Is the marketing intelligence system producing accurate, sufficient, and timely information about developments in the marketplace?
2. Is marketing research being adequately used by company decision makers?

Marketing Planning System

1. Is the marketing planning system well-conceived and effective?
2. Is sales forecasting and market potential measurement soundly carried out?
3. Are sales quotas set on a proper basis?

Marketing Control System

1. Are the control procedures (monthly, quarterly, etc.) adequate to insure that the annual plan objectives are being achieved?
2. Is provision made to analyze periodically the profitability of different products, markets, territories, and channels of distribution?
3. Is provision made to examine and validate periodically various marketing costs?

New Product Development System

1. Is the company well-organized to gather, generate, and screen new product ideas?
2. Does the company do adequate concept research and business analysis before investing heavily in a new idea?
3. Does the company carry out adequate product and market testing before launching a new product?

Marketing Productivity Audit

Profitability Analysis

1. What is the profitability of the company's different products, served markets, territories, and channels of distribution?
2. Should the company enter, expand, contract, or withdraw from any business segments and what would be the short- and long-run profit consequences?

Cost-Effectiveness Analysis

1. Do any marketing activities seem to have excessive costs? Are these costs valid? Can cost-reducing steps be taken?

Marketing Function Audits

Products

1. What are the product line objectives? Are these objectives sound? Is the current product line meeting these objectives?
2. Are there particular products that should be phased out?
3. Are there new products that are worth adding?
4. Are any products able to benefit from quality, feature, or style improvements?

Price

1. What are the pricing objectives, policies, strategies, and procedures? To what extent are prices set on sound cost, demand, and competitive criteria?
2. Do the customers see the company's prices as being in line or out of line with the perceived value of its offer?
3. Does the company use price promotions effectively?

Distribution

1. What are the distribution objectives and strategies?
2. Is there adequate market coverage and service?
3. Should the company consider changing its degree of reliance on distributors, sales reps, and direct selling?

Sales Force

1. What are the organization's sales force objectives?
2. Is the sales force large enough to accomplish the company's objectives?
3. Is the sales force organized along the proper principle(s) of specialization (territory, market, product)?
4. Does the sales force show high morale, ability, and effort? Are they sufficiently trained and incentivized?
5. Are the procedures adequate for setting quotas and evaluating performances?
6. How is the company's sales force perceived in relation to competitors' sales forces?

Advertising, Promotion, and Publicity

1. What are the organization's advertising objectives? Are they sound?
2. Is the right amount being spent on advertising? How is the budget determined?
3. Are the ad themes and copy effective? What do customers and the public think about the advertising?
4. Are the advertising media well chosen?
5. Is sales promotion used effectively?
6. Is there a well-conceived publicity program?