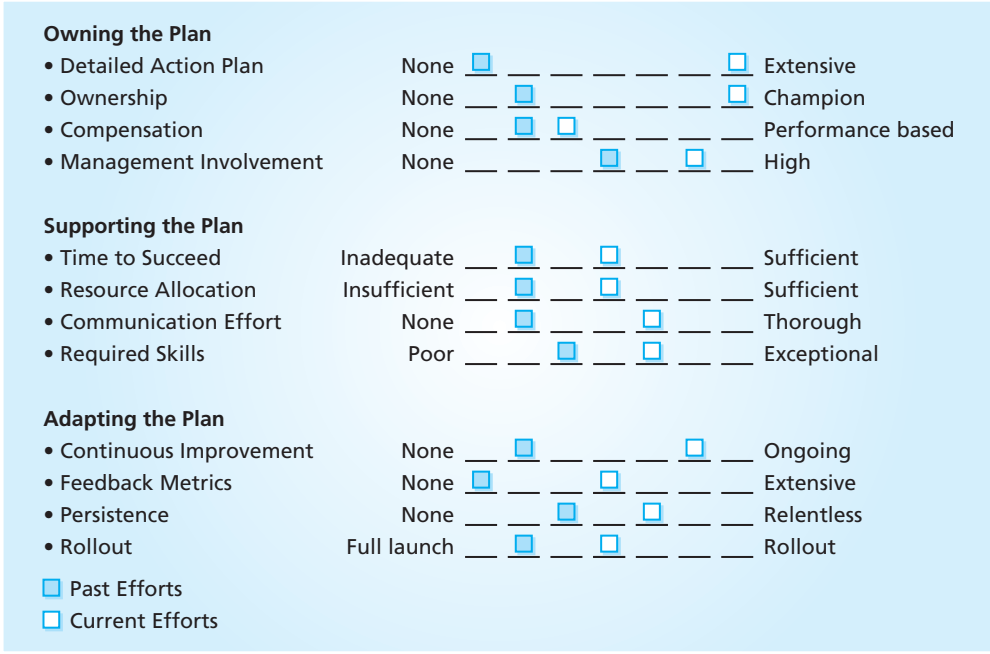
FIGURE 15-11 ASSESSING THE IMPLEMENTATION OF A MARKETING PLAN



business with a strong customer focus and competitor orientation across job functions has a greater level of market sensitivity and urgency from which to develop and implement its plan.

VARIANCE ANALYSIS

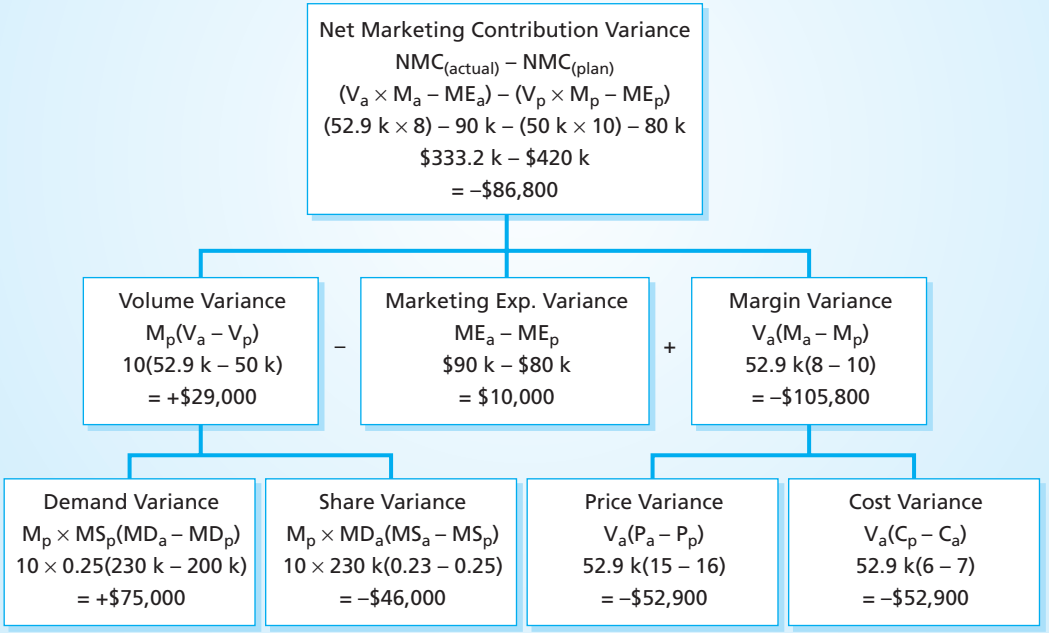
After implementing a marketing plan, marketing managers need to compare the planned results with the actual results at periodic intervals in the plan's time horizon to determine which variables are contributing to the plan's performance. If a business achieves the first-year net marketing contribution performance objective, it might be because all the strategic variables performed as planned. Or the same result could be due to an underperformance in some variables of the NMC equation, combined with an overperformance in others. Variance analysis allows a business to isolate the components of marketing performance to understand better how each is contributing to the NMC:

$$\begin{aligned} \text{NMC} &= \text{Volume} \times \text{Margin per Unit} - \text{Marketing \& Sales Expenses} \\ &= (\text{Demand} \times \text{Share}) \times (\text{Price} - \text{Variable Unit Cost}) - \text{Marketing \& Sales Exp.} \end{aligned}$$

Consider the business in Figure 15-12, which has a marketing plan that projected $420,000 for the net marketing contribution for year 1 of the plan. The actual NMC at the end of year 1 was $86,800 less than estimated in the plan, as calculated in the first tier of the diagram. What was the primary cause of this shortfall in performance?

FIGURE 15-12 VARIANCE ANALYSIS—PLAN VERSUS ACTUAL PERFORMANCE

Area of Performance	Plan	Actual	Variance
Market Demand (units)	200,000	230,000	30,000
Market Share (%)	25.0	23.0	–2.0
Volume	50,000	52,900	2,900
Price per Unit	$16.00	$15.00	–$1.00
Sales Revenues	$800,000	$793,500	–$6,500
Variable Cost per Customer	$6.00	$7.00	$1.00
Margin per Unit	$10.00	$8.00	–$2.00
Gross Profit	$500,000	$423,200	–$76,800
Marketing & Sales Exp. (% sales)	10.0	11.3	1.3
Marketing & Sales Expenses	$80,000	$90,000	$10,000
Net Marketing Contribution	$420,000	$333,200	–$86,800



V_p = Volume$_{(plan)}$ MD_p = Market Demand$_{(plan)}$ MS_p = Market Share$_{(plan)}$
V_a = Volume$_{(actual)}$ MD_a = Market Demand$_{(actual)}$ MS_a = Market Share$_{(actual)}$

P_p = Price$_{(plan)}$ C_p = Variable Cost$_{(plan)}$ M_p = Margin$_{(plan)}$
P_a = Price$_{(actual)}$ C_a = Variable Cost$_{(actual)}$ M_a = Margin$_{(actual)}$

ME_p = Marketing & Sales Expenses$_{(plan)}$ ME_a = Marketing & Sales Expenses$_{(actual)}$

The second tier in the diagram shows the calculation of the variances between actual and planned volume (V_a minus V_p), actual and planned marketing and sales expenses (ME_a minus ME_p), and actual and planned margin per unit (M_a minus M_p). The volume sold was higher than planned, the unit margin was lower, and marketing and sales expenses were higher. Of the $86,800 negative variance in the NMC, $10,000 is attributable to the difference between actual and planned marketing and sales expenses. However, performance variances in volume and margin can be broken down further.

As illustrated in Figure 15-12, a variance in volume reflects any difference in actual versus planned market demand, plus any difference in actual versus planned market share. In this example, a positive variance in market demand was responsible for an increase in the net marketing contribution of $75,000, and a negative variance in market share was responsible for a decrease by $46,000. Taken together, the greater-than-planned market demand and the smaller-than-planned market share were responsible for the positive variance of $29,000 in volume ($75,000 minus $46,000). The volume variance in turn contributed the same amount to the NMC ($10 in planned margin times 2,900 more units sold equals $29,000).

The margin variance in this example is also derived from more than one source of performance. Actual prices were lower than planned and actual costs were higher than planned. In this case, the price variance and unit cost variance each had a negative impact of $52,900 on the net marketing contribution, for a combined negative variance of $105,800 in total margin.

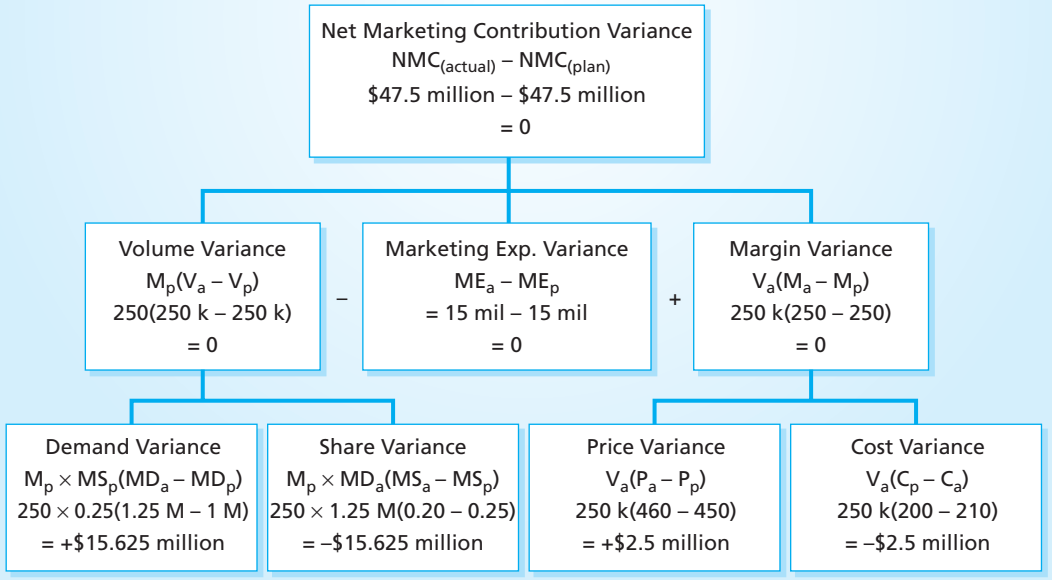
The fundamental marketing profitability metric for planning purposes is the net marketing contribution equation. Examining the sources of the net marketing contribution in terms of their underlying performance variances allows us to see which aspects of the plan worked and which did not. With this information, a marketing manager is better equipped to make adjustments in the marketing plan and to project future performance more accurately. The insights a marketing manager could gain from the variance analysis in Figure 15-12 include the following:

- If market demand had not been greater than expected, the performance gap in the net marketing contribution would have been much wider. In other words, a little good luck was involved.
- If the business had achieved its planned market share, the net marketing contribution shortfall would have been less than it was.
- A higher cost per unit and lower unit prices than planned both contributed to a lower net marketing contribution.
- The higher-than-planned marketing and sales expenses will have to be addressed in future profit planning.

A situation in which actual marketing profits are lower than expected is likely to draw the attention of senior management. But what about a situation in which no differences occur between actual and planned net marketing contribution, actual and planned volume sold, and actual and planned marketing and sales expenses? Such a situation is illustrated in Figure 15-13. The marketing plan is obviously on track. A finance-oriented business would note that price per unit is $10 higher than in the marketing plan but would also investigate the higher variable cost per unit. A finance-oriented

FIGURE 15-13 VARIANCE ANALYSIS SHOWING "HIDDEN" CONCERNS

Area of Performance	Plan	Actual	Variance
Market Demand (units)	1,000,000	1,250,000	250,000
Market Share (%)	25.0	20.0	–5.0
Volume	250,000	250,000	0
Price per Unit	$450.00	$460.00	$10.00
Sales Revenues	$112,500,000	$115,000,000	$2,500,000
Variable Cost per Unit	$200.00	$210.00	$10.00
Margin per Customer	$250.00	$250.00	$0.00
Gross Profit	$62,500,000	$62,500,000	$0
Marketing & Sales Exp. (% sales)	13.3	13.0	–0.3
Marketing & Sales Expenses	$15,000,000	$15,000,000	$0
Net Marketing Contribution	$47,500,000	$47,500,000	$0



business, however, would rarely look beyond volume and would probably fail to recognize performance variances in market demand and market share.

A business that does not track market share, market demand, and other marketing performance metrics will usually discover too late that its marketing plan is not working. In contrast, a market-based business that tracks performance metrics and conducts an annual variance analysis over the life of the plan will know whether its actual marketing performance matches the planned performance and where any shortcomings in the plan are.

The variance analysis in Figure 15-13, for instance, shows the independent effects of variances in market demand and market share on the net marketing contribution. This information would alert the business to a disturbing performance gap in market share. As the market is growing faster than expected, the business may have underresourced its marketing and sales expenses, which is causing the business to fall short of its intended share goal. With this variance analysis, a market-based business would recognize the higher-than-expected market demand and would be able to take steps to achieve the target market share of 25 percent. Although the analysis shows that performance variances in price and variable cost had a smaller impact on the net marketing contribution for that particular year, the price and variable-cost variances are nevertheless important in modifying the marketing plan or in developing an effective future plan.

The examples presented in Figures 15-12 and 15-13 show us why the implementation of a marketing plan is more likely to succeed when a business's managers track performance metrics and conduct periodic variance analyses to determine how well the plan is performing over time.

Summary

Marketing metrics are an important part of responsible market-based management. It is critical that marketing managers and marketing professionals establish a credible set of marketing metrics that link marketing performance to company sales and profits. The use of marketing metrics has been demonstrated to benefit financial performance, yet many companies resist adopting them. This chapter identified five common barriers to usage and recommended solutions for overcoming them.

Most businesses, especially at first, cannot apply all of the many marketing metrics that have been developed. It is best to start with a small set of marketing metrics, chosen with the organization's needs, capabilities, and budget in mind, that can be tied to business objectives. Some of these may be forward-looking marketing metrics (e.g., customer retention) and others may be backward looking (e.g., market share). Likewise, some marketing metrics could be external (e.g., customer satisfaction) and others internal (e.g., marketing ROI).

Developing a proactive, market-based marketing plan is only half of the work. The plan must also be effectively implemented. Without ownership, support, and adaptation, the plan will fail. Detailed action plans, a marketing plan champion or team, performance-based compensation, and the involvement of top management and other appropriate personnel contribute to employees feeling ownership of the marketing plan and improve its chances of successful implementation.

Successful implementation also requires time to succeed, sufficient resources, a comprehensive communications effort, and skills on the part of those involved. The business must show a readiness to respond to any unanticipated obstacles, such as swings in market conditions, that will likely arise during implementation. The probability of unexpected impediments requires that marketing plans be adaptive. Continuous efforts to improve the plan, on the basis of feedback measures, are an important part of successful implementation. Businesses that are persistent in adapting their marketing plans have a greater chance for success. A regional rollout provides a less expensive venue than a full-scale rollout, and one that entails fewer risks, in which to adapt the marketing plan.