

Strategic Marketing Management

Block

4

ORGANIZATIONAL EFFECTIVENESS AND CONTROL IN STRATEGIC MARKETING

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BLOCK 4: ORGANIZATIONAL EFFECTIVENESS AND CONTROL IN STRATEGIC MARKETING

The fourth block to the course on Strategic Marketing Management deals with the implementation of organizational effectiveness and control in strategic marketing. A firm should ensure that the strategic objectives formulated and adopted by the company are implemented effectively. Effective implementation involves efficient deployment of capital, human and marketing resources of the company. The block contains four units.

Keeping in mind various strategic issues like the overall business goals, competition, customer profile and strengths and weaknesses etc., every firm must develop a marketing strategy for its brands. The twentieth unit, *Strategic Issues in Marketing*, discusses the factors that increase the pressure on organizations. It then explains the concept of corporate sustainability. The problems faced by the marketing department, problems in obtaining marketing feedback and problems in information handling are discussed in detail in the unit. It then discusses management issues associated with marketing cost and also the factors that determine marketing orientation. The unit then discusses marketing planning objectives and marketing planning process. The unit finally concludes with a discussion on several organizational issues.

An effective marketing organization needs to leverage on the internal strengths and facilitate internal and external collaboration for achievement of strategic objectives. The twenty first unit, *Designing an Effective Marketing Organization*, deals with various considerations in organization design. It then discusses various options in designing an organizational structure. It also discusses various factors to be considered in the selection of an organizational design. The unit finally concludes with a discussion on various considerations undertaken by multinationals in designing global organizations.

Implementation and control of marketing strategies is a process that ensures accomplishment of objectives and it involves organization and directing of people. The twenty second unit, *Marketing Strategy Implementation and Control*, discusses the strategic issues with regard to marketing plans. It then goes on to explaining the prerequisites for effective implementation of marketing strategy and barriers to implementation of marketing strategy. It then discusses the process of strategic evaluation and control, the concept of strategic marketing audit and different types of control.

The marketing organization must be designed to win and accomplish the strategic objectives. The twenty third unit, *Learning in Marketing Organization*, discusses the learning process of an organization about the markets. It then goes on to define a learning organization and explains the types of organizational learning. It then discusses different sources of information and its analysis. The purpose of marketing information systems and its elements are also discussed in the unit. It then discusses the activities involved in gathering marketing research information. The unit finally discusses various types of computerized information systems used in a marketing organization.

Unit 20

Strategic Issues in Marketing

Structure

- 20.1 Introduction
- 20.2 Objectives
- 20.3 Organizational Pressures
- 20.4 Corporate Sustainability
- 20.5 Problems in the Marketing Department
- 20.6 Problems in Obtaining Marketing Feedback
- 20.7 Problems in Information Handling
- 20.8 Issues Related to Marketing Cost
- 20.9 Marketing-Orientation
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- 20.15 Suggested Readings/Reference Material
- 20.16 Answers to Check Your Progress Questions

“Amazing things will happen when you listen to the consumer.”

– Jonathan Mindenhall

20.1 Introduction

As well quoted by Jonathan, the customer is the main center of every business and listening to him will make the firm understand the strategic issues like changes in consumer behavior. Strategic issues in marketing like increase in level of competition, change in technology, change in customer behavior, etc. pose challenges and compel organizations to exercise fundamental policy changes.

The previous block gave an overview of the concepts in new product development, product branding and customer service strategies, pricing strategies, advertising and sales promotion strategies, public relations and direct marketing strategies, sales force strategies and distribution strategies.

In this unit, we shall discuss about various strategic issues that arise during the process of marketing, factors that increase the pressure on organizations, corporate sustainability, problems faced by the marketing department, problems in obtaining marketing feedback and problems in information handling,

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management issues associated with marketing cost and also the factors that determine marketing orientation, marketing planning objectives and marketing planning process and several organizational issues.

20.2 Objectives

After reading this unit, you should be able to:

- Discuss the factors that increase the pressure on organizations.
- Define corporate sustainability.
- Elaborate on various problems faced by the marketing department.
- Explain the problems faced by the marketing department in obtaining marketing feedback and in information handling.
- Discuss various issues related to marketing cost.
- List and explain the factors determining marketing orientation.
- State the marketing planning objectives and understand the marketing planning process.
- Discuss various organizational issues such as functional and business level marketing issues and corporate and enterprise level marketing issues.

20.3 Organizational Pressures

Organizations are increasingly under pressure on account of some key factors.

The six important key factors creating organizational pressures are as given below:

20.3.1 Increasing International Competition

Competition in international business is increasing at a faster pace than ever before with many organizations going multinational. For decades, America dominated the international business and their economy was able to withstand competition from European countries and from Japan.

20.3.2 Fast Paced Innovations

The increasing speed with which technological innovations take place creates additional pressure on businesses. In the 1990s, the focus of innovation was on quality, developing new technology and controlling costs. However, with the turn of the century, the focus of innovation was more on creativity and growth rather than the development of new products.

Key aspects of innovation are:

- *Developing New Products:* Globalization and the advent of the internet have had a great impact on facilitating new product ideas. Marketers now have the task of selecting the best ideas, executing them and introducing the product in the market within the shortest possible time.

Example

Samsung is the world's market leader of smartphones, its success is mainly due to its innovation and developing new products. In 2019, it came up with a folded smartphone 'Samsung Galaxy Fold' in Indian market with pre-bookings during October 2019¹ onwards.

Source: ICFAI Research Center

- *Recreating Business Processes:* The widespread use of IT has helped organizations across the board to improvise on their processes. The facility to obtain real-time information that does not require human involvement considerably has reduced wastage in the production process, the lead times on purchases and record keeping errors.
- *Developing New Markets/Services:* Similarly, the internet has helped in the development of new services like Internet Telephony, which allows customers to make calls between computers. The internet has also paved the way for the opening of various online stores like Amazon.com, which allow users to purchase products from the convenience of their home or office. Technological advancements force companies to innovate at a faster rate.
- *Meeting Unfulfilled Customer Needs:* Organizations are under tremendous pressure to come up with new products to meet the changes in the tastes and preferences of the customers. They also have to keep pace with the competitors' innovations. The short development time also makes it difficult to gain the maximum benefit out of an innovative product as customers expect a modified version of such a product too soon, even before the company gets the return on its investment for such a product.
- *Coordination of Innovation Related Activities:* Another issue relating to innovation is the coordination of all innovation related activities. This often requires an organization to restructure itself and to bring together a group of people from across the organization.
- *Reward Structure of the Organization:* In addition, the reward structure of the organization should also be linked to innovation, as proper rewards and recognition to innovators will motivate the employees to innovate more.

20.3.3 Organizational Restructuring and Mergers and Acquisitions

Many organizations undergo organizational restructuring with objectives like increasing profitability or retaining their position in the industry. Mergers and Acquisitions (M&A) is another factor that forces organizations to transform. Various banking and insurance organizations, healthcare providers, computer software firms, media and communications and entertainment giants go in for M&As with the objective of gaining synergies in the form of economies of scale, improved distribution channels and in due course, higher profits.

¹ <https://gadgets360.com/mobiles/news/samsung-galaxy-fold-price-in-india-rs-164999-launch-specifications-release-date-october-20-2110143> accessed on 22/2/22

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20.3.4 Increased Quality Consciousness

Organizations are expected to develop, produce and market products that can satisfy consumers' needs and demands. Quality no longer means reducing the number of defects alone. Improved quality means an increase in the value provided to customers in terms of features, like performance, design, service, and economy. However, the firm has to strike a balance between the quality expectations of the customers and the profit objectives of the organization.

20.3.5 Lack of Skilled Workforce

Many countries like the US and Germany are facing unique problems on account of their aging population and structural problems like skill gap. In some cases youth struggling to enter the labour force were under prepared for jobs and in some other cases, middle aged persons who lost their jobs due to lay off or factory closings, found it difficult to learn new skills. The skill gap problem is considered unhealthy, because this situation leaves a huge pool of the workforce unemployed who are also socially disconnected.

20.3.6 Changing Demographics of Consumers

With the changes in consumer demographics, the requirements of consumers also change. More and more consumers turn toward quality products that provide value for money. Consumers have become more demanding and are more willing to experiment with new products, as technology impacted the way people spend their time and money. The customers are also becoming more environmental conscious.

Check Your Progress - 1

1. Which of the following factors is not responsible for the increasing pressure on the organizations?
 - a. Increasing international competition
 - b. Fast paced innovations
 - c. Organizational restructuring
 - d. Decreased quality consciousness of customers
 - e. Consumer's quest for value for money
2. Which of the following is not a direct objective for an organization to undergo organizational restructuring?
 - a. Increasing profitability
 - b. Increase market value of a company
 - c. Retaining their position in the industry
 - d. Increase control and make operations efficient
 - e. Increase customer satisfaction by better serving customers

3. Which of the following is not a synergy that comes with a merger & acquisition?
 - a. Economies of scale
 - b. Improved distribution channels
 - c. Increased production costs
 - d. Higher profits
 - e. Complementary skills of employees
4. In recent times companies feel pressurized due to different reasons. Which of the following is a likely cause for pressure?
 - a. Decreasing quality consciousness of consumers
 - b. Increasing demand for worst designed products
 - c. Increasing environmental consciousness of customers
 - d. Increase in demand for high priced products
 - e. Consumers' Obsession with quality

20.4 Corporate Sustainability

Organizations are now expected to exhibit higher levels of competence in addressing global and industry challenges in a variety of areas like management of human resources, environmental protection, corporate governance, development of business strategies, product and service innovations, etc., and this has led to the development of the concept of corporate sustainability.

Corporate Sustainability is “*a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments*”. It recognizes that profitability and growth are important for organizations. But at the same time, it requires organizations to try to achieve societal goals related to environmental protection, social justice and equity, economic development, etc. Application of corporate sustainability to various areas is given below (Refer Table 20.1).

Table 20.1: Application of Corporate Sustainability

Application Area	Application of Corporate Sustainability
Human Resource	Management of human resources of the organization in such a way that it helps to maintain their competence and satisfaction by providing them with the best opportunities for knowledge management practices and organizational learning. It also involves ensuring the best remuneration and benefit programs to the employees.

Contd....

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Corporate Governance and Stakeholder	Setting up best practices incorporates governance, which includes setting up a corporate code of conduct.
Customer	Developing customer loyalty by engaging in customer relationship management practices.
Product	Product innovations that in the long term make use of the available financial, natural and social resources in an efficient, effective and economic manner.
Finance	Financial performance being able to meet the expectations of shareholders to achieve good financial returns and economic growth of the organization. Shareholders also expect open communication and transparent financial accounting practices from the organization.
Strategy	Integration of social, economic and environmental aspects in business strategies and at the same time maintaining the reputation of the brand and competitiveness of the organization on an international basis.

Source: ICFAI Research Center

The concept of corporate sustainability is derived from four main concepts – sustainable development, corporate social responsibility, stakeholder theory and corporate accountability theory.

20.4.1 Sustainable Development

Sustainable development is ‘development that meets the needs of the present without compromising the ability of future generations to meet their needs’. The achievement of sustainable development cannot be left to governments alone as business organizations also have played a major role in making the development process unsustainable. They too have in their possession the resources required to address the issues related to ensuring social equity and environmental protection.

20.4.2 Corporate Social Responsibility

Corporate social responsibility is related to the role of business in society. Organizations have an ethical responsibility to meet the requirements of society and not just their business objectives and needs of society. Organizations have an ethical obligation toward sustainable development.

20.4.3 Stakeholder Theory

The basic foundation of the stakeholder theory lies in the relationship between an organization and its stakeholders. According to the theory, organizations that

have a better relationship with their stakeholders will be able to achieve their organizational objectives better. Thus, better relationships with stakeholders will provide a competitive advantage to organizations to achieve their organizational objectives.

20.4.4 Corporate Accountability

Accountability refers to the obligation of a person to explain, justify, or report on his/her actions. In the context of corporate sustainability, the accountability of the management toward shareholders is more relevant. The corporate accountability theory helps to define the nature of the relationship that corporate managers should have with society.

TBL-Triple Bottom Line Reporting in Corporate Accountability: The organization should provide information on not only its financial performance, but also its environmental, social, and economic performance. This approach has come to be known as ‘triple bottom line’ reporting. Corporate sustainability is an emerging management concept and is quite different from the traditional business concepts, which place greater emphasis on profit maximization.

Exhibit 20.1 illustrates the TBL-Triple Bottom Line performance of ITC Limited.

Exhibit 20.1: ITC an Exemplar in TBL-Triple Bottom Line Performance

ITC is one of India's most valuable companies as it gives utmost importance to the environment, society and its economy. The following are its TBL performance indicators:

Environment: ITC maintains global environment standards while operating its business. Some of its environmental performance indicators are:

- *Water Positive:* It is water positive for 10 years in a row.
- *Carbon Positive:* It has been carbon positive for 7 consecutive years.
- *Solid Waste Recycling Positive:* It is solid waste recycling positive for the last 5 years.
- *Irrigation:* Through its ‘Watershed Development’ initiative it brings water to over 98,000 hectares of moisture-stressed areas.
- *38% Renewable Energy:* More than 38% of ITC’s total energy consumption is from renewable sources.
- *Greenest Luxury Hotel Chain in the World:* All ITC premium luxury hotels are LEED Platinum certified.
- *Social and Farm Forestry Initiative:* ITC’s Social and Farm Forestry initiative has greened over 1,38,000 hectares.

Contd....

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Social: ITC contributes to society along with its business operations. Some of its social initiatives are:

- *Sustainable Livelihoods:* It created over 5 million sustainable livelihoods.
- *Creating Community Assets:* ITC strengthened the agri production base of nearly 4 lakh farmers.
- *Educating Children:* ITC's primary education initiative has educated over 3,00,000 children.
- *Empowering Farmers:* ITC's globally acknowledged e-Choupal initiative is the world's largest rural digital infrastructure benefitting over 4 million farmers.
- *Sustainable Livelihoods for Rural Women:* ITC's women empowerment initiative has created nearly 40,000 sustainable livelihoods.
- *Animal Husbandry Services to Milch Animals:* ITC's livestock development initiative has provided animal husbandry services for nearly 5,00,000 milch animals.

Economic: ITC is also good in creating wealth to its shareholders and stakeholders through top standard business practices. Some of its achievements are:

- *Market Capitalization:* \$ 35 billion market capitalization.
- *Turnover:* \$ 7 billion turnover.
- *Shareholder Returns:* Total shareholder returns of 26% per annum.
- *Employees:* ITC Group provides direct employment to over 29,000 people.
- *Powering Growth With Multiple Business Drivers:* Diversified multi-business conglomerates spanning FMCG, Hotels, Paperboards & Packaging, Agri Business and Information Technology.

Source: <https://www.itcportal.com/sustainability/sustainability-report-2012/triple-bottom-line.aspx> Accessed on 22/2/22

Activity 20.1

WH Ltd., is a US-based company manufacturing chemicals. The company is planning to set up its facility in India. The company planned to set up its first plant in Madhya Pradesh. After taking permission from the government, the company selected a location where people were not residing in the vicinity. The company also offered jobs to the local population in a bid to serve the community. Identify and define the concept in which the company is engaged in. Also discuss other concepts deriving from the concept.

Answer:

Check Your Progress - 2

5. Which of the following is a suitable measure that would aid in corporate sustainability in the area of human resources?
 - a. Increasing salaries of employees by 5%
 - b. Providing them with the best opportunities for knowledge management practices and organizational learning
 - c. Giving bonus
 - d. Employing youngsters in the place of senior persons
 - e. Poaching employees from best companies
6. Which of the following options is not a derivative source for the concept of corporate sustainability?
 - a. Sustainable development
 - b. Corporate social responsibility
 - c. Corporate governance
 - d. Stakeholder theory
 - e. Corporate accountability theory

20.5 Problems in the Marketing Department

The marketing department generally faces various problems in the management of its operations as well as in its relationship with other departments in the organization.

Some of the major problems faced by marketing departments are examined here.

20.5.1 Dealing with Consumers

Marketing department has to deal with consumers who are becoming more and more demanding. Customer satisfaction, building long-term relationships with customers and customer retention are some of the major problems that marketing organizations face.

20.5.2 Interrelationship between The Departments

In its relationship with other departments in the organization, the marketing department may face problems. This is mainly because of the interrelationship between the departments. The output of the marketing department will have a great influence on the output of other departments and vice versa.

20.5.3 Handling lot of Operations

Marketing organizations have to develop strategies for their global operations, build strategic alliances and networks, engage in direct and online marketing and engage in ethical marketing behavior – all of which can create problems for the marketing department.

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20.5.4 Human Relations Problems

The marketing department has to coordinate with various external agencies like market research firms, distributors, advertising agencies and so on. It thus faces problems in maintaining human relations with people in the internal and external environment. Most often, differences of opinion lead to conflict rather than cooperation among the members involved.

Some key aspects of human relations problems are:

- *Conflicts between Internal and External People:* The goals of advertising managers, marketing researchers, product managers and distributors will not completely match with the goals of the marketing department of an organization. This results in potential conflicts among the people involved. Often, the individualistic and creative nature of people engaged in many of these activities can create problems.
- *Control over the Activities of External Agencies:* Coordination of the activities of these external agencies is a major problem that marketing departments face. The marketing manager also has to exercise a certain level of coordination and control over the activities of these external agencies.

20.5.5 Marketing Performance Assessment Problems

Marketing performance assessment is necessary to help an organization achieve its long-term and short-term marketing performance objectives. The major objective of marketing performance assessment is to measure the actual marketing performance against the pre-specified set of standards.

Some key assessment problems of marketing performance are:

- *Difficult Task:* Performance assessment of marketing efforts is generally a difficult task compared to the performance assessment of many other functions in the organization like HR or finance. This is mainly because of the difficulty in analyzing the effectiveness of marketing activities like advertising or personal selling. Moreover, performance cannot be evaluated in absolute terms.
- *Efforts & Situation Prevailing:* The success of a marketing program is very much related to the efforts made to achieve the relevant objectives as well as the situation prevailing in the marketplace, including the nature of competition, which are difficult to assess.
- *Performance of Other Departments & External Agencies:* Performance of marketing is closely related to other departments in the organization as well as to external agencies like retailers, wholesalers, advertising agencies, etc. The performance of each of these units will also have an impact on the performance of the marketing department.

20.5.6 Coordination Problems

The marketing department has to achieve better coordination with other departments in the organization like production, finance, HR, etc., as well as functional subsystems like purchase, materials control, etc. These departments are obviously beyond the control of the marketing department and as a result, coordination is not an easy task. Another aspect to be considered is the preparation of marketing plans. Marketing plans are to be prepared in coordination with plans for production, personnel, finance, etc., as all these plans are interrelated.

Coordination between R&D and Marketing Functions

The interface between R&D and marketing is crucial in nature. The systematic coordination between R&D and marketing is essential for the success of the product in the market. Better coordination between the two functions can result in better anticipation, examination and utilization of opportunities available in the market. The distinction between R&D focused and marketing focused firms are given below (Refer Table 20.2).

Example

3M² is the best instance for good coordination between its R&D and Marketing departments like for its product range of ‘Scotch bright’, it stressed on the hygiene factor for marketing its products. It utilized beneficial marketing opportunities because of their R&D department’s efforts.

Source: ICFAI Research Center

Table 20.2: Distinction between R&D Focused and Marketing Focused Firms

R&D Focused Firms	Marketing Focused Firms
<ul style="list-style-type: none"> • R&D is the main focus and marketing executives have to find applications for the product or ways to sell the products developed by R&D. • It often creates new markets and caters to till then unperceived buyer needs. • The company often relies on qualitative market research techniques as historical data to use in quantitative research is usually unavailable. 	<ul style="list-style-type: none"> • The company uses inputs obtained from markets in its R&D activities. • Each and every R&D idea is evaluated against its acceptability in the highly competitive marketplace.

Adapted from Shanklin, William L. and John K. Ryans Jr. “Organizing for High-tech Marketing.” Harvard Business Review. Vol. 62 Issue 6, p164, 8p. Nov/Dec84.
Nikos Vemardakis, “Innovation and Technology: Business and Economic Approaches”, Routledge, 22/01/2016

² <https://sarv.com/resource/post/role-of-r-d-in-marketing-success> accessed on 22/2/22

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Some important aspects in coordination between R&D and Marketing are:

- *High Technology Organizations:* In high technology organizations, (i.e. an organization that has a strong scientific basis and where the new technology they develop makes existing technology outdated and creates market demand) marketers should necessarily know what is being developed by their R&D department. The R&D department should also actively participate in the marketing planning process.
- *Marketing Department Provides Guidelines to R&D:* All the R&D efforts may not produce significant results in the market. The marketing department can therefore provide guidelines to R&D regarding the boundaries within which the R&D efforts can be concentrated.
- *Involvement of R&D in the Marketing Function:* Just like the marketing function that involves itself in the activities of the R&D before the development of the product, the R&D function too can involve itself in the marketing function once the product is ready for launch. It can involve itself in various activities like preparation of technical manuals, marketing research, pricing, etc., and provides valuable inputs to the marketing department.

Production and Marketing Coordination

The production department often has to deal with a variety of problems like machine failure, labor problems, stock-out of raw materials, etc. In spite of these problems, it is entrusted with the task of making finished products without any defects available on time while incurring the lowest cost possible.

Some important aspects in production and marketing coordination are:

- *Complaints & Conflicts:* The problems arise mainly out of the conflict of interest between the two departments as well as communication problems.
 - Production department usually complains that marketers are not able to understand problems associated with production.
 - On the other hand, marketers complain about the production department's lack of market orientation or customer orientation.
- *Production-Oriented Company:* If the company is production-oriented, usually the problems of the production department will be given priority over the problems associated with the marketing department.
- *Marketing-Oriented Company:* Similarly, in a marketing-oriented organization, the problems of the marketing department will be given priority.

Purchasing and Marketing Coordination

Coordination problems between the purchasing and the marketing departments usually arise out of the marketing department's failure to inform the purchase

department about the market situation. If there is a likely increase or decrease in demand, then the purchase department has to be informed sufficiently in advance so as to take decisions regarding the purchase of raw materials. Informing the purchase department in advance can reduce over- or under-stocking of raw materials.

Personnel and Marketing Coordination

In the highly competitive world of business, marketing and personnel cannot exist as separate entities, but effective coordination is required between them.

The personnel department is concerned with issues like recruitment, staffing, training and development, performance evaluation and compensation of the employees of the organization. The marketing department, on the other hand, is mainly concerned with issues like pricing, promotion, distribution and product features.

Integration between Personnel and Marketing

In spite of the diversity in the personnel and marketing functions, there has to be integration between both departments to effectively meet both customer demands and employee demands. In personnel functions like employee selection, training, evaluation, compensation, etc., the marketing orientation is required for personnel managers.

Finance and Marketing Coordination

It is very important to ensure that the people from both the Finance and Marketing departments understand their mutual concerns and work towards achieving organizational objectives.

Some important concerns of finance and marketing coordination are:

- *Finance Department:* The finance department generally controls the finances of the organization. It allocates budgets for different departments in the organization based on the forecasted expenditures of the departments. But the finance department usually considers the marketing function to be extravagant in expenditure and expects it to maximize the ROI (return on investment) on marketing. It is not the overall marketing expenditure, but the promotional expenditure, especially advertising expenditure, which often creates problems for the finance department.
- *Marketing Department:* The marketing department generally asks the finance department for more funds for advertising, sales promotion, etc. The people in the marketing department, on their part, often think that the finance department controls the finances too rigidly without understanding their concerns about developing long-term relationships with the customers.

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Activity 20.2

C-Systems is a computer hardware manufacturer in the US. Though the company was very innovative in coming out with the latest hardware products for the computer industry, it failed to market its products well. This often leads to a major decline in its sales and market share. A research by the top management found that there were coordination problems between the departments in the company. In this context, identify the coordination problem. Also discuss other coordination problems faced by departments in an organization.

Answer:

Check Your Progress - 3

7. Which of the following is not a problem for the marketing department regarding customers?
 - a. Customer satisfaction
 - b. Building long-term relationships with customers
 - c. Customer retention
 - d. Recruiting employees
 - e. Providing value for money to customers
 8. Which of the following is not a major problem faced by marketing departments relating to various departments?
 - a. Human relations problems
 - b. Marketing performance assessment problems
 - c. Coordination problems
 - d. Persuading consumers to buy products in a sales call
 - e. Budgeting and Resource Allocation
 9. Which of the following is not a coordination related problem for the marketing department?
 - a. Coordination between R&D and marketing functions
 - b. R&D and human relations
 - c. Purchasing and marketing
 - d. Finance and marketing
 - e. Marketing and production
-

20.6 Problems in Obtaining Marketing Feedback

Marketing managers require continuous information flow in carrying out marketing analysis, planning, implementation and control. Marketing feedback is generally obtained through market research and the marketing intelligence system. The absence of timely, sufficient and accurate feedback about marketing activities can cause various problems in an organization like inability to control the marketing performance.

Typical sources of marketing information are:

- *Regular Reports:* These are like, quarterly market reviews and monthly sales reports provided by field sales personnel, annual market research into customer needs etc.

Example

PwC is an international research firm which conducts market and customer research globally. In its 2021³ Digital Banking Consumer Survey conducted with 6,000 retail consumers to find out their needs found out that 20-25% of consumers would prefer to open a new account digitally but are unable to do so today and 34% of consumers born since 1996 (Gen Z) say their primary bank is where they hold their main check. This marketing information is useful to banking companies in general to understand the needs of the customers.

Source: ICFAI Research Center

- *Formal Investigations:* These are like market research and audit.
- *Informal Investigations:* These are like inquiries via the telephone to identify the reasons behind slump in sales.
- *Routine Encounters:* These are like reading the morning newspaper, chatting with co-workers or customers, attending meetings or conferences, etc.

Very often, the marketing manager will have to think beyond the feedback obtained on marketing performance and control the marketing activities and motivate the staff. A major reason for this is the probable existence of a large number of factors behind the deviation of actual marketing performance from the targeted one. Another reason could be the flaws in target setting itself.

³ <https://www.pwc.com/us/en/industries/banking-capital-markets/library/digital-banking-consumer-survey.html> accessed on 22/2/22

Check Your Progress - 4

10. For which of the following activities does a marketing manager requires continuous flow of information?
- Warehouse management
 - Marketing analysis
 - Selling
 - Recalling the product
 - Understanding customer needs
-

20.7 Problems in Information Handling

In marketing management, the effectiveness of a manager is greatly dependent on the availability of timely and adequate information as well as his/her ability to interpret the information and take appropriate decisions. Problems relating to information arise when managers are provided with inaccurate, late and irrelevant information. The Marketing Information System (MkIS) is found to be an effective tool in obtaining useful information from raw data.

Some important advantages of information handling are:

- Availability of effective and relevant information can help in reducing uncertainty and thereby help in taking the right decisions.
- It will also help in effective planning and evaluation and control of marketing performance.
- In the highly competitive market conditions, information regarding the competition is very important and helpful for business.
- Market intelligence has in fact become the foundation for the success of any business as it handles the information appropriately.

Example

Kearney is a global research firm which specializes in market research and market intelligence studies across the globe, like in retail sector it developed GRDI - Global Retail Development Index - for every year which is an annual study that ranks the top 30 developing countries for retail expansion worldwide and in its GRDI 2021⁴ India was ranked 2nd. Through such market intelligence studies companies can better understand the market.

Source: ICFAI Research Center

- Knowledge about the external environment collected, structured and organized effectively and efficiently helps in successful marketing decision-making.

⁴ <https://www.kearney.com/global-retail-development-index/2021> accessed on 22/2/22

20.8 Issues Related to Marketing Cost

Marketing costs are those expenditures aimed at promoting the customer's awareness of a product and in converting that awareness into one or more purchases and the maintenance of that relationship with the organization. The expenditure on advertising, direct marketing, sales promotion, managing the sales force, etc., all form part of the marketing costs.

Some important aspects related to marketing cost are:

- *Important Component of Total Expenditure:* Marketing costs constitute an important component of total expenditure in many organizations.
- *Difficult to Measure:* Most of the marketing costs are discretionary and are difficult to measure, i.e., there is no direct relationship between output and input.
- *Marketing Assets are Intangible:* An issue associated with marketing costs relates to the nature of marketing assets. Most of the marketing assets like the brand name, customer base, etc., are intangible in nature and require efforts to maintain or enhance their value.

Example

The brand Coca-Cola was valued at 87.6 billion U.S. dollars as of 2021⁵. The company is enhancing its brand value mainly through its advertising. Globally, the company spends around 2.8 billion U.S. dollars on promoting its brands and products. Apart from traditional advertising, Coca-Cola is also involved in many sports sponsorships and cause-related marketing.

Source: ICFAI Research Center

20.8.1 Management Issues Associated with Marketing Cost

Marketing costs cannot be avoided by the organizations even though it is not possible to exactly gauge the returns obtained from such costs. Managers generally estimate these costs based on the marketing objectives that need to be achieved. Organizations are generally bound by various internal and external factors that have an impact on their marketing expenditure.

Some important methods for estimating marketing costs are:

- *Based on Previous Year:* The management generally estimates the costs of marketing expenditure for the coming year based on the expenditure incurred in the previous year. This normally happens when the management is satisfied with the previous year's performance and therefore wants to continue with the same level of expenditure for the coming year also. But it is not advisable to follow this method as market situations keep changing and what is appropriate for one year may not be suitable for the next.

⁵ <https://www.statista.com/statistics/326065/coca-cola-brand-value/> accessed on 22/2/22

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- *Based on Marketing Expenditure of Competitors:* Many firms try to collect information regarding the marketing expenditure of the competitors and try developing a similar marketing expenditure.

They do this for two broad reasons as given below.

- One, the less aggressive organizations generally feel threatened by the aggressive marketer and may follow it as a defensive mechanism just to remain in the race.
- Second, if a successful and properly managed company adopts a certain marketing expenditure pattern, then other players in the market will follow such a pattern without hesitation owing to the long-standing efficiency of the organization.

20.9 Marketing-Orientation

According to Theodore Levitt, *marketing focuses on the needs of customers and the objective of marketing is to satisfy such needs with relevant products and services. Marketing-oriented companies give priority to satisfying customers' needs.*

Beliefs: The two important beliefs of marketing-oriented companies are as given below:

- Such companies believe that marketing-orientation includes certain activities like collecting information regarding competitors so that the company can adapt to the market and offer customer satisfaction better than the competitors.
- These firms also believe that building relationships with customers helps in better understanding their needs while proper product positioning and product image improves their ability to satisfy the psychological and social needs of the customers.

Characteristics: An organization that exhibits marketing-orientation will necessarily exhibit three characteristics as given below:

- Keeness in understanding the market in which it is operating (market intelligence),
- Ability to propagate the information collected about the market to the key elements in the organization,
- Ability to devise strategies and implement them in accordance with the information collected about the target market.

Types of Factors Determining Marketing-Orientation

There are basically two types of factors that determine marketing-orientation which are as given below:

20.9.1 Organization-specific Characteristics of Marketing-orientation

The internal environment of an organization, which constitutes its organizational culture and various practices followed by the company are major factors in determining its marketing-orientation.

The organization-specific characteristics of marketing-orientation are as given below:

- *Organization Culture:* The culture of the organization should support developing and maintenance of the marketing-orientation in the organization.
- *Organizational Structure:* Besides the organization culture, the structure of the organization should also support the marketing-orientation. Thus, adoption of marketing-orientation requires an organization to modify the organizational structure, the method of allocating its organizational resources and the communication networks.
- *Degree of Centralization and Formalization:* The degree to which the organizational structure is centralized and formalized also influences the marketing-orientation of the organization.
 - *Centralization:* Centralization is the degree to which members of the organization participate in organizational decision-making.
 - *Formalization:* Formalization is the presence of rules, regulations, procedures, etc. that influence various operations in the organization. A highly centralized and formalized organization will not be able to collect and make full use of market information.

Example

Nationalized banks in India like SBI, PNB etc., are highly centralized and formalized in their operations and they were not able to collect and make use of market information as the private banks like HDFC Bank, ICICI Bank etc. Hence private banks will be benefitted as they are more market-oriented than the nationalized banks.

Source: ICAI Research Center

- *Top Management:* The top management of the organization plays a major role in market-orientation. It is responsible for taking decisions regarding developing marketing-orientation and building a competitive advantage for the organization. It is therefore necessary that the top management plays an active role and ensures that the entire organization develops a marketing-orientation.

20.9.2 Market-specific Characteristics of Market-orientation

The characteristic of the market in which an organization operates also plays an important role in market-orientation. An organization which is operating in a relatively stable market environment may not have to adopt market-orientation in the short term. However, such an organization also has to identify that no market will be stable for a long period of time and it therefore has to ensure that it develops market-orientation in order to survive in the environment in the long run.

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The most important market-specific factors that influence the adoption of market-orientation by an organization are:

- The past and estimated growth rate of the organization's market
- The rate of technological changes
- Market entry and exit barriers
- The competition present in the market

20.10 Planning Orientation

Marketing planning is an important process, especially for large multinational companies operating in different markets with a number of products. It helps the company to adapt to the changes in the business environment and to take suitable decisions. Businesses operate in a complex and volatile environment. They have to adapt to the changes that take place in the marketing environment and to modify the marketing mix elements accordingly.

Definitions:

- *Marketing Planning:* It can be defined as “a systematic process for assessing market opportunities, helping organizations to stay in touch with marketplace trends, and stay abreast of customer need. Marketing plan is the written document that businesses develop to record the output of the marketing planning process”.
- *Strategic Marketing Planning:* It is the “planning process that yields decisions on how a business unit can best compete in the markets it elects to serve. The strategic plan is based upon the totality of the marketing process”.

20.10.1 Marketing Planning Objectives

Marketing planning is necessary in implementing the marketing strategy of the organization. This is because the marketing planning provides the details of the marketing tasks that are to be carried out and the people responsible for doing so.

The major objectives of the marketing planning are as given below:

- To identify the resources required to carry out the business operations
- To identify the major weaknesses of the organization which are to be rectified
- To identify the threats facing the organization which require defensive measures
- To facilitate the monitoring of marketing performance results so that the firm can have effective control over the marketing operations.

20.10.2 Marketing Planning Process

Marketing planning is an ongoing process which requires constant revision to reflect various changes that take place in the business environment as well as within the organization.

Steps in Marketing Planning Process: The four important steps in marketing planning process are as given below:

- *Step 1 - Analysis and Review of the Environment:* The marketing planning process starts with an analysis and review of the environment in which the business is operating. The analysis of the buying behavior of consumers, emerging economic trends, emerging political trends, advances in technology, etc. have to be carried out. A thorough and accurate analysis can have a positive influence on the ensuing marketing strategy development.
- *Step 2 - Development of Marketing Strategy:* The strategy is to be developed based on the analyses made. Strategy development involves identification of the target market and strategies for competing and positioning in the market as well as determining the marketing objectives. The marketing strategy developed should be consistent with the organization's overall objectives, practical and comprehensive to form the basis for the marketing programs that are to be developed.
- *Step 3 - Determination of Marketing Mix Programs:* The next step involves the determination of marketing mix programs. There should be a detailed explanation of various activities to be undertaken, by whom, when, and how. This will make the marketing programs easy to implement.
- *Step 4 - Implementation of Marketing Mix Programs:* Each element of the marketing mix – product, price, promotion and place – has to be considered separately and the actions required in each of them have to be separately identified so that the marketing plans can be implemented easily.

Example

McDonald's did not conduct marketing planning properly as its 2022⁶ Arch Deluxe advertisement campaign did not result positively. It spent huge on advertising this savior sandwich and called it as "the burger with the grown up taste," but sales were very disappointing as they were low and never reached the firm's expectations.

Source: ICFAI Research Center

Barriers in the Marketing Planning Process: Marketing planning can provide various benefits to an organization, but there are various barriers that hamper the effectiveness of the marketing planning process. Identification of these commonly occurring barriers can be helpful in preventing them. Exhibit 20.2 provides a list of barriers which stand in the way of marketing planning. This list of barriers would enable marketers to guard against these and enable smooth planning of marketing activities.

⁶ <https://thetakeout.com/why-mcdonald-s-should-resurrect-its-biggest-failure-1848522477> accessed on 22/2/22.

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Exhibit 20.2: Barriers in the Marketing Planning Process

The following are the barriers in marketing planning process:

- Absence of clear marketing planning objectives.
- Insufficient analysis of the marketing environment, including consumers, competitors, etc.
- Lack of or inadequacy of the marketing intelligence system and insufficient sharing of marketing intelligence.
- Separate preparation of the marketing strategy and programs without the market research results being considered.
- Inadequate details being provided in the marketing programs and implementation plans.
- Absence of planners who have a good vision about the organization.
- Inability to do things differently from the usual way.
- Flaws in the planning process on account of the workload of the managers.
- Inability on the part of planners to understand the general marketing concepts as well as lack of marketing knowledge and expertise.
- Misunderstanding of the planning process and confusion over marketing jargon.
- Inability to connect marketing planning with corporate planning.
- Lack of long-term vision and emphasis being given to annual plans.
- Lack of adequate financial and human resources for the planning process.
- Lack of support from the top management as well as from other departments and levels in the organization.

Sources: Adapted from Dibb, Sally. "Marketing Planning Best Practice." *The Marketing Review*. P441-459, 2002.

Sally Dibb, Lyndon Simkin, "Marketing Briefs: A Revision and Study Guide", Routledge, 21/08/2012

20.11 Organizational Issues

In the highly competitive marketing environment of the early 21st century, marketing organizations face various challenges in carrying out their strategic and organizational functions as given below:

- Advancements in the field of managerial expertise,
- Restructuring of international barriers,
- The continuous emergence of new players in the world market.

Such a competitive business environment requires marketing organizations to be extremely innovative, flexible and efficient. The changes and developments that

take place in the business environment in terms of takeovers, mergers, acquisitions, joint ventures, outsourcing and strategic alliances force organizations to renew the role played by conventional marketing departments.

20.11.1 Network Organization

Network organization has emerged as an alternative to traditional marketing organizations. The concept behind network organization is the formation of relationships among several independent organizations, corporate units and entrepreneurs. There can be a horizontal relationship among actual or potential competitors and a vertical relationship among members of the value chain spanning suppliers to end-users.

Example

Nike⁷ is the center of a dynamic network organization, where it has formed relationships among several independent organizations and corporate units. Their only functions are R&D and marketing and other functions are managed by the other units and organizations. This organizational set up has helped it in concentrating on its core functions.

Source: ICFAI Research Center

Some important aspects of network organizations are:

- Network organizations are more flexible and more oriented toward customer preferences.
- They differ from the traditional organization forms and interaction takes place mainly between network partners rather than multi-layered functions of traditional organizations.
- The interaction among network members will be mainly through extremely sophisticated decision support systems which extend worldwide.
- As strategic information is to be shared among the members of the network organization, trust among the partners is an extremely important factor that determines the success of strategic alliances and other similar network relationships.

Types of Issues in Network Organizations

There are two types of issues in a network organization which are as given below:

Functional and Business Level Marketing Issues in Network Organizations

Functional and business level issues are concerned with the internal functioning of the marketing organization.

⁷ <http://analytictech.com/mb021/virtual.htm> accessed on 22/2/22

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Functional Level: The functional level is concerned with specialized functional activities and capabilities within the organization. At the functional level, the unit of analysis is the marketing subsystem and at the business level, the unit of analysis is the marketing organization. At the functional level, there will be advertising, sales, and marketing research specialists who report to the head of the marketing organization (Refer to Table 20.3).

Business Level: The business level is concerned with competition, targeting, and positioning at the product-market level.

Table 20.3: Levels of Marketing Organization & Issues

Strategic Level	Units of analysis	Examples of Major Issues
Functional	Marketing subsystems	Organizing and coordinating sub-functions of marketing such as advertising, marketing research and sales operations.
Business	Marketing department	The organization of marketing and the internal structure of the marketing department. The integration of marketing sub- functions and relationships with other marketing functions.
Corporate	Divisional marketing responsibilities and group-wide marketing issues	Centralization/decentralization of marketing decisions. Relationship with central and other marketing units.
Enterprise	Strategic alliances and networks	External relationships with strategic marketing partners.

Adapted from Philip Kotler, Kevin Lane Keller "Marketing Management", Pearson, 2017.

Bureaucratic marketing organizations are set to change in favor of networks of buyers and sellers and strategic alliances, thereby eliminating the need for marketing specialists. The importance of customer driven marketing and market-orientation will challenge the traditional role played by the marketing departments.

Factors Causing Fundamental Changes in the Marketing Organization: All the following factors can cause fundamental changes in the marketing organization of modern organizations and result in the formation of network organizations, which in turn face issues of a different nature. The major changes that can take place in marketing organizations are as follows:

- The number of levels in the organizational hierarchy and the number of employees will be reduced, resulting in increased speed and flexibility in the marketing organization. The line management will be empowered to manage important business processes.

- For managing important changes in the marketing organization, multifunctional teams with complementary skills will be formed. Such teams will help in accurate and speedy achievement of projects.
- The most critical processes in the organization will be fundamentally restructured to increase speed and flexibility, reduce costs and improve openness toward customers.
- For those organizations that operate globally, the marketing organizations will require more and more specialized skills to compete effectively against global competitors.
- The orientation of marketing organizations will be more towards learning and upgrading of new skills. This will help them to create a competitive advantage through providing more value to customers.

The important functional and business level marketing issues in network organizations are:

- A major issue that can take place in network organizations is related to marketing planning.
- There may be issues related to people and processes that are to be involved in the planning process so that a sense of loyalty and ownership is generated when the plans are being implemented.
- Even while implementing the plans there may be various difficulties throughout the network on account of the lack of centralized control in the organization structure.
- The analysis of implementation barriers in the network organization may also involve substantial time and cost.
- In providing customer service, network organizations may face certain problems.
- For instance, if an airline company outsources passenger reservation service to an outside firm, it has to ensure that this firm is well aware of the quality and customer relation practices of the airline company.
- Otherwise, it may create several problems for the company in terms of customer satisfaction and loss of customers to competitors.
- There can also be problems in the network organization in control and evaluation of the performance of the network organization. This is mainly because control of operations in a network organization has to depend more on trust factors among the members.

Corporate and Enterprise Level Marketing Issues in Network Organizations

Enterprise Level: The enterprise level is concerned with wide-ranging issues like the organization's social values and its relationship with the environment.

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Corporate Level: The corporate level is concerned with issues relating to the management of the portfolio of businesses and various units within the organization. It is also related to issues regarding centralization and decentralization responsibilities within the organization.

The important corporate and enterprise level marketing issues in network organizations are:

- The competence of the organization in marketing can be adversely affected with the formation of strategic alliances.
- Many organizations may not find it strategically attractive to relocate their marketing capability to other parts in the total marketing network. This is because the marketing network or the alliance is susceptible to failure.
- Besides, the management may want to retain many of the marketing specializations with itself as a cover against probable future failures in the network.
- Another issue to be considered is the flexibility of the total network formed through alliances. In due course, such a network of alliances can become bureaucratic, which may make the whole system inefficient.
- If the organization has to depend on resources which are available with other parts of the network, its flexibility will come down.
- The strategic and financial cost of terminating the network if it fails to achieve the desired results and its likely impact on marketing is another major issue to be considered.

20.12 Summary

- Some of the strategic marketing issues in organizations include increasing competition, fast paced and changing nature of innovations which reduces the span of the product life cycle, organizational restructuring, increased quality consciousness of customers, lack of a skilled workforce and the changing demographics of consumers.
- The marketing department in organizations also faces various problems in its operations and in its relationship with other departments.
- The marketing department has to coordinate with various other external agencies like advertising, PR agencies, etc. Human relations problems may arise in these coordination efforts.
- Marketing performance assessment creates problems as the performance depends a lot on factors external to the organization.
- The marketing department may face coordination problems among various marketing subsystems as well as with other departments. Coordination between R&D and the marketing department can result in better products being introduced in the market that can meet market needs better.

- Coordination problems arise between the production and marketing departments on account of the conflict of interests between the two departments as well as communication problems. Coordination problems between the purchasing and marketing departments arise when the marketing department fails to inform the purchase department about the market situation.
- The absence of timely, sufficient and accurate feedback about marketing activities can cause various problems in an organization like the inability to control the marketing performance.
- The availability of effective and relevant information can help to reduce uncertainty and thereby help managers to take the right decisions.
- Marketing cost constitutes an important element of expenditure and it is determined on the basis of marketing objectives to be achieved.
- Marketing oriented companies primarily give importance to the satisfaction of consumer needs in their marketing efforts.
- Marketing planning is an ongoing process that takes place in organizations.
- The highly competitive marketing environment has led to the formation of network organizations like strategic alliances. Such network organizations also face various issues in planning, implementation, and control of the various marketing activities.

20.13 Glossary

Centralization: Centralization is the degree to which members of the organization participate in organizational decision-making.

Corporate Sustainability: Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

Formalization: Formalization is the presence of rules, regulations, procedures, etc. that influence various operations in the organization. A highly centralized and formalized organization will not be able to collect and make full use of market information.

Marketing Information System: Marketing Information System is a set of procedures and methods for the regular, planned collection, analysis and presentation of information for use in making marketing decisions.

Marketing Planning: Marketing planning can be defined as a systematic process for assessing market opportunities, helping organizations to stay in touch with marketplace trends and stay abreast of customer needs.

Strategic Marketing Planning: Strategic marketing planning is the planning process that yields decisions on how a business unit can best compete in the markets it elects to serve. The strategic plan is based upon the totality of the marketing process.

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Sustainable Development: Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their needs.

20.14 Self-Assessment Test

1. Describe the factors that increase the pressure on organizations.
2. Define corporate sustainability.
3. Explain various problems faced by the marketing department.
4. Explain the problems faced by the marketing department in information handling.
5. State the marketing planning objectives. Explain the marketing planning process.

20.15 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, “New Products Management”, 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, “Strategic Marketing”, 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, “Marketing Strategy”, 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, “Strategic Marketing Management”, “Strategic Marketing: Making Decisions for Strategic Advantages”, PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, “Strategic Marketing Management”, Cerebellum Press, 2018.

20.16 Answers to Check Your Progress Questions

1. (d) Decrease quality consciousness of customers

Organizations are increasingly under pressure on account of various factors like increasing international competition, fast paced and changing nature of innovations which reduces the span of the product life cycle, organizational restructuring, increased quality consciousness of customers, lack of a skilled workforce, changing demographics of consumers, etc. Hence option 'd' is correct.

2. (b) Increase market value of a company

Many organizations undergo organizational restructuring with objectives like increasing profitability or retaining their position in the industry, increasing efficiency, etc. Increasing the market value of a company is not a goal.

3. (c) Increase production costs

Organizations go in for merger & acquisitions with the objective of gaining synergies in the form of economies of scale, improved

distribution channels, and in due course, higher profits. Hence option 'c' is correct.

4. (c) Increasing environmental consciousness of customers

The environmental consciousness of customers is another area in which organizations are increasingly facing pressure in carrying out their business.

5. (e) Providing them with the best opportunities for knowledge management practices and organizational learning

Application of corporate sustainability in the area of human resource management helps an organization to maintain the employee competence and satisfaction by providing them with the best opportunities for knowledge management practices and organizational learning.

6. (c) Corporate governance

The concept of corporate sustainability is derived from four main concepts – sustainable development, corporate social responsibility, stakeholder theory, and corporate accountability theory. Hence option 'c' is correct.

7. (d) Recruiting employees

Customer satisfaction, building long-term relationships with customers, and customer retention are some of the major problems that marketing organizations face. Recruiting employees is a **not** a problem faced by marketing organizations.

8. (d) Persuading consumers to buy products in a sales call

Some of the major problems faced by marketing departments while co-ordinating with other departments are – Human relations problems, marketing performance assessment problems, coordination problems and budgeting and resource allocation problems. Option 'd', (Persuading consumers to buy products in a sales call) is the job of a salesperson and concerns only the marketing department

9. (b) R&D and human relations

Coordination problems for the marketing department arise in the following forms – Coordination between R&D and marketing functions, production and marketing coordination, purchasing and marketing coordination, personnel and marketing coordination, and finance and marketing coordination.

10. (b) Marketing analysis

Marketing managers require continuous information flow in carrying out marketing analysis, planning, implementation and control.

Unit 21

Designing an Effective Marketing Organization

Structure

- 21.1 Introduction
- 21.2 Objectives
- 21.3 Considerations in Organization Design
- 21.4 Organizational Design Options
- 21.5 Selecting an Organization Design
- 21.6 Global Dimensions of Organizations
- 21.7 Summary
- 21.8 Glossary
- 21.9 Self-Assessment Test
- 21.10 Suggested References/Reading Material
- 21.11 Answers to Check Your Progress Questions

“Most large mistakes in organizational design come from putting the individual ambitions of the people at the top of the organization ahead of the communication paths for the people at the bottom of the organization.”

- Ben Horowitz

21.1 Introduction

As quoted rightly by Ben Horowitz, the organizational design will be effective if it considers the people at the bottom of the organization also for communication. Effective organizational designs must facilitate communication, generate higher awareness and product experiences and drive growth. To sum up, it must facilitate internal and external coordination, by enabling staff to work smarter to achieve business results.

The previous unit discussed the factors that increase the pressure on organizations, corporate sustainability, problems faced by the marketing department, problems in obtaining marketing feedback, problems in information handling, management issues associated with marketing cost, factors that determine marketing orientation, marketing planning objectives and marketing planning process and several organizational issues.

In this unit, we shall discuss how to design an effective marketing organization, various considerations in organization design, various options in designing an organizational structure, various factors to be considered in the selection of an organizational design and various considerations undertaken by multinationals in designing global organizations.

21.2 Objectives

After reading this unit, you should be able to:

- Discuss various considerations in organization design.
- Understand various options in designing an organizational structure.
- Discuss various factors to be considered in the selection of an organization design.
- Elaborate various considerations undertaken by multinationals in designing global organizations.

21.3 Considerations in Organization Design

Organization Structure: The American Marketing Association defines organization structure as “*the formal and informal framework within which people work to achieve organization objectives. It includes the establishment of positions along with descriptions of their duties, responsibilities, authority, reporting relationships, and assignment to groups*”.

Appropriate Organization Structure: For marketing strategy to be implemented effectively, an appropriate organization structure has to be designed and implemented. In fact, the reason for the failure of many marketing strategies is often an inappropriate marketing organization structure. This means that it is necessary for the marketing organization structure to be compatible with marketing strategy.

Marketing Strategy: While marketing strategy specifies what will be accomplished and by what time, the organization structure specifies who will accomplish the marketing strategy and how it will be done. Many organizations fail in their attempt to implement new marketing strategies as they persist with the same outdated organization structure.

The five major considerations in designing a marketing organization structure are internal and external organizations, vertical structure, horizontal relationships, speed of response and managing the operating environment which are as given below:

21.3.1 Internal and External Organizations

In designing a marketing organization, an important decision to be made is regarding the functions that are carried out within the organization and the functions that need to be carried out with the aid of external agencies.

Outsourcing to External Organizations: A lot of marketing organizations outsource many marketing activities, especially those which involve creativity like advertising and promotional campaigns. Traditionally outsourced marketing activities include product promotion, market research, direct mail and advertising.

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In addition, many of the customary in-house functions of the marketing department like market planning, strategic planning, new product development, sales support activities, etc., are increasingly being outsourced since the past few years.

The two important advantages of outsourcing are:

- Outsourcing marketing activities helps to save on costs, increase quality, and attain marketing expertise.
- Marketing organizations which redesign to incorporate the outsourcing activities more effectively will not get integration problems between the organization and the outsourcing partner.

Control by Internal Organization: The role of developing and implementing a project will be outsourced, but the control of the project will be left with the internal organization and for this purpose, highly skilled employees will be retained in the organization. The marketing managers have to integrate the activities of all the outsourcing partners that provide services to the marketing organization.

21.3.2 Vertical Structure

Vertical structure relates to the number of levels in the organizational structure.

Considerations in Vertical Structure are:

- *Reporting Relationships:* Reporting relationships are concerned with who will report to whom in the organizational hierarchy.
- *Departmental Groupings:* Departmental grouping relates to how the employees in the organization are assigned various responsibilities. Grouping generally takes place on the basis of product, geography, function, etc.
- *Information Flow:* Information flow is on the basis of established rules, procedures, plans, schedules, information system, etc. within the organization. Many organizations face the task of cost cutting and generally resort to employee layoffs to do this. Reducing the number of levels and increasing the span of control can also help to reduce costs to a great extent.
- *Knowledge-Based Organization:* According to Peter F. Drucker, the emergence of a knowledge-based organization will create a shift from the traditional bureaucratic organization structures. In a knowledge-based organization, use of computers and the resulting ease in systematic conversion of data into information can help to reduce the total number of levels. The specialist knowledge workers will direct as well as evaluate their performance with the aid of feedback obtained from colleagues, customers whom they deal with, and reports obtained from the organizational headquarters.

21.3.3 Horizontal Relationships

A horizontal organization structure implies *“the movement from the functional or vertical organization to an organization that is aligned along core processes that meet the needs of the customers”*. Changing a vertical organization into a horizontal one is not an easy task. The problem is mainly in convincing employees about the benefits that can be accrued by this change.

Advantages of horizontal structure are:

- *Better Productivity*: These structures are generally adopted with the objectives of decreasing cost and increasing quality and to focus more on the core processes of the organization. An organization with a horizontal organization structure can also adapt easily to the changes in market conditions and it has better productivity than organizations which are vertically or functionally organized.
- *Value Addition to Customers*: In horizontal organizations, the primary concern is customers. The internal atmosphere is considered to be important only if it can add value to the customers. The objective of this horizontal integration is to keep abreast of the changing consumer trends wherein consumers want to access their favorite content anywhere, anytime and on any device.
- *Easy Problem Recognition & Tracking*: IT has emerged as an important tool which contributes to making organizations horizontal. It can provide information to all the levels of the organization on a real-time basis and also tools with which any problems in the organization can be easily recognized and tracked.

21.3.4 Speed of Response

A survey conducted by The Boston Consulting Group and *BusinessWeek*. The survey found out that the organizations that can do things faster are more competitive than others.

Survey Findings-Influencing Factors: The survey showed that the following factors make the ‘speed’ at which products reach the market, which is the most important factor for success in global businesses; Unavailability of the required development time, Rapid changes in the tastes and preferences of customers, Global outsourcing and availability of open source software.

Disadvantages of Increasing Speed: Many organizations find it difficult to organize their activities so as to increase speed. Increasing the speed of operations requires more investment, even when the returns out of such investments are not certain. The increased speed of operations is also dependent on the willingness of the top level management to take initiatives for growth rather than waiting for changes to take place from the lower levels.

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Exhibit 21.1 illustrates the organizational design practices of Coca-Cola.

Exhibit 21.1: Coca-Cola's Organizational Design

Coca-Cola has been consistently ranked as the top soft drink brand worldwide, with a global brand value of over 71 billion U.S. dollars (as of Sep 2021). One of the reasons for being able to be the market leader is creating a proper organizational design.

The various organizational design practices of Coca-Cola are as given below:

Internal & External Organizations:

- *Outsourcing to External Organizations:* Coca-Cola manufactures soft drink beverages with the help of many external organizations like bottling companies, public water systems, sugar plantations and processing plants, decocainized coca leaf extract, one of at least fifteen natural flavors used to create Coca-Cola at low cost partnership with the Federal Bureau of Narcotics, caffeine from the Monsanto Chemical Company of St. Louis, Missouri and other suppliers etc.
- *Control by Internal Organization:* Its internal organization TCCC (The Coca-Cola Company, Atlanta US) acquires all ingredients from external firms and produces the concentrate and beverage bases and powdered beverage mixes and controls the entire value chain across the globe through subsidiaries.
 - **Vertical Structure:** Coca-Cola is “Tall” in terms of organizational complexity. Coca-Cola is controlled through a vertical hierarchy, with decision-making authority residing with the company's upper management. Daily and routine decisions are made by the line managers at the middle level.
 - **Horizontal Relationships:** Coca-Cola at domestic level in international markets is having horizontal relationships. Like in India, TCCC (The Coca-Cola Company, Atlanta US) re-entered the Indian market post the economic liberalization of 1991 and established Coca-Cola India Private Limited (CC IPL) as its wholly-owned subsidiary in 1992. In India, it has one company-owned bottling entity, namely, Hindustan Coca-Cola Beverages Pvt., Ltd., and thirteen licensed bottling partners of The Coca-Cola company.
 - **Speed of Response:** Speed of response by Coca-Cola is at a high rate due to the availability of the required development time, addressing rapid changes in the tastes and preferences of customers, global outsourcing etc.

Sources: i) https://www.statista.com/topics/1392/coca-cola-company/#topicHeader__wrapper
Accessed on 23.2.22

ii) <https://cokecommodity.weebly.com/the-production.html> Accessed on 23.2.22

iii) <https://www.coca-colaindia.com/about-us/coca-cola-worldwide-and-in-india> Accessed on 23.2.22

21.3.5 Managing the Operating Environment

Business organizations have to manage their operating environments to achieve success. Given below are some important aspects of it:

- *Influencing Factors for Change in Organizational Structures:* Businesses are increasingly facing rapid, vibrant, and unpredictable changes in their operating environment, they have to cope with various emerging technologies and highly demanding customers who have diverse needs and preferences. Such factors lead the organizations to change radically and to develop new organization structures which will help them to adapt to the opportunities and threats prevailing in the business environment.
- *Trending Organizational Structure - Network Organization:* A widely prevalent trend in new organization structures is the formation of a network by a large number of individual companies, which may even contain more than one alliance of this kind. Such networks together have the shape of a relatively flat organization structure compared to the multi-level organization structures found in traditional organizations. The performance of the whole network depends on the interaction between individual organizations in the network rather than the inter-organizational functions of individual organizations.
- *Advantages of Network Organization:* The main advantage of network organization is its ability to cope with rapidly changing business environments. It also helps to make rapid innovations and to ensure their commercial success. It can also achieve efficiency and economies of operation which will, in turn, help to provide more value to the consumers, employees, and shareholders.

Activity 21.1

CS Ltd., is a leading consumer appliance company in India. To maintain its market leader position, the top management encouraged its employees to give innovative ideas to come out with new products. But the employees faced difficulty in conveying their ideas to the Innovation Manager who is also a board member due to several layers in the organizational hierarchy.

Suggest a suitable organizational structure that would enable the employees to convey their ideas to the Innovation Manager. Also state the benefits the company would reap after adopting the suggested organizational structure.

Answer:

Check Your Progress - 1

1. Which one of the following is the reason for the failure of many marketing strategies?
 - a. Inappropriate marketing organization structure
 - b. Good distribution network
 - c. Appropriate marketing organization structure
 - d. Competitor behavior
 - e. Failure to communicate to customers
2. Which of the following is the least important factor of consideration in a vertical structure?
 - a. Reporting relationships
 - b. Departmental groupings in the organization
 - c. Information flow
 - d. Flow of authority and scalar chain
 - e. Power balance
3. Which one of the following implies the movement from the functional or vertical organization to an organization that is aligned along core processes that meet the needs of the customers?
 - a. Vertical organization structure
 - b. Horizontal organization structure
 - c. Matrix organization structure
 - d. Integrated organization structure
 - e. Change in organizational structure

21.4 Organizational Design Options

Dynamic business environments have led to the requirement for organization structures that can quickly adapt to the changes. In considering the various options that are available in designing organization structures, it will be useful to understand the traditional organization structures as well as the new forms of marketing organizations that have emerged.

21.4.1 Traditional Marketing Organizations

In traditional marketing organizations, the focus of organizational issues was more on the overall structure of the organization, which was used to plan, implement and control the marketing activities.

Basically, four types of structures are used traditionally – functional, product, market/geographic and matrix organizations, which are as given below:

Functional Organization

Definition of Functional Organization: *“In a functionally organized company, the managers of each major function (such as marketing, production, research and development and finance) report to the chief executive, who provides the overall direction and coordination. Similarly, in a functionally organized marketing department, the managers of the major marketing functions (such as sales, advertising, marketing research and product planning) report to the marketing manager”.*

Functional organization is the simplest and most common type of marketing organization. Its major advantage is that it provides specialization by function, while the coordination of functions is provided by the chief executive. Similarly, in a functional marketing department, coordination and direction of marketing functions are supervised by the marketing manager.

The functional organization was found to be incapable of handling products or brands beyond a certain level. This disadvantage associated with it led to the development of the product organization structure.

Product Organization

Product organization is suitable for organizations that have a large number of products or brands. In this organization, the functional organization is not replaced, but it usually forms an additional layer to the management. Product managers will usually have to manage a single product or a product line. Product organization is usually adopted by organizations that have a wide number of products or brands.

Example

Samsung⁸'s organizational structure's main characteristic is its product-type divisions. Each division is a group of resources and operations that represent a product category, such as resources and operations for the production, distribution and sale of consumer electronics. It has three main product type divisions - Consumer Electronics, Device Solutions and IT & Mobile Communications divisions. Consumer electronics is again divided into product lines like Mobiles, TVs & AVs, Home Appliances and Computing & Displays etc.

Source: ICFAI Research Center

Disadvantages of product organization are:

- *Unable to Handle Challenges:* In the 1990s, the emergence of various factors like new technologies, new distribution channels and more demanding customers added to the complexity of the marketing function. The product organization structure that various organizations adopted was unable to handle these challenges.

⁸ <https://www.samsung.com/in> accessed on 23.2.22

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- *More Resources:* Product managers tried to get more and more resources from the organization for the product/s which they managed.
- *Focus on Activities for Quick Promotions:* Category managers or brand managers were engrossed in planning the day-to-day activities, or in finding temporary solutions for problems or activities that would enable them to get promotions quickly.
- *Unable to Provide Cross-Functional Leadership & Strategic Thinking:* They were not able to provide the cross-functional leadership and strategic thinking which was necessary to steer the organization through the complex marketing environment.
- *Lacking Integrated Consumer-Focused Approach:* An integrated consumer-focused approach, which would enable the organization to make profits, was lacking.
- *Coordination:* Coordination was another major problem associated with product organization. For a particular product, the marketing and strategic requirements in different markets would be different.

All the above factors led to the emergence of market/geographic organizations.

Market/Geographic Organization

Definition: Market organization is “a company organized into geographical units that report to a central corporate headquarters. Normally, each unit produces the same or similar products as the others, and the unit manager controls both the manufacturing and sales operations. Marketing functions other than sales are usually centralized at the corporate level”. The advantages of using geographic organization include savings on transportation costs and the ability to deliver products quickly.

Roles of Managers: The role that the product manager plays in a product organization will be played by market managers in a market organization. These market managers will undertake all the marketing-related activities in a particular market. It is the responsibility of market managers to make long-term plans for the market that they manage. They have to closely observe the market for the activities of competitors and take appropriate actions.

Combination or Matrix Organization

It was in the 1960s that combination or matrix organization structures emerged in the aerospace industry. A combination or matrix organization is a combination of the functional and product forms of organization. This structure helps to reap the benefits of each of the organizational structures. In managing large organizations with a large number of products, matrix organization structures are found to be useful.

Unit 21: Designing an Effective Marketing Organization

In a combination or matrix organization, *teams of functional personnel like manufacturing, research and development, finance, and sales, report to a manager who has a profit responsibility and bears a title such as business manager, category manager, or new product manager. The functional personnel also report to their functional bosses, who are responsible for maintaining the quality of functional performance*'. Thus, the functional personnel have to report to two heads and this makes the system complex.

There are different variants of matrix organizations, but the three most commonly used types are as given below:

Functional matrix: In a functional matrix, employees remain members of the functional department. A project manager is assigned the responsibility of overseeing the cross-functional aspects of the project which are being implemented. The whole responsibility of design and implementation of various technical requirements will be entrusted to the functional managers, who will control the resources allocated for the project.

Balanced matrix: A balanced matrix is the classic model of the matrix organization. The employees of the organization will officially be members of two organizational aspects – the functional and the product organization. There will be the need to balance the power and responsibility between both the organizational aspects. Functional managers will deal with all personnel related activities and the accomplishment of organizational tasks. Project managers will supervise the project that is being implemented.

Project matrix: In a project matrix, the focus is more on project organization than on the functional organization. The employees remain members of the project organization, but they will render their services to both the project as well as functional organization simultaneously. It is the project managers who primarily control the course of the project as well as the resources required for its implementation. Functional managers, by and large, play an advisory role and provide support to the team engaged in carrying out the projects.

Activity 21.2

GS Ltd., is a Mumbai-based pharmaceutical company. The company operated with a functional structure where all the heads of marketing, sales, and R&D report to the chief head of the company. As the company expanded its portfolio of brands, it could not operate with the existing functional structure. Suggest a suitable structure that would enable the company to handle its expanded brand portfolio. Also discuss other organizational structures.

Answer:

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21.4.2 New Forms of Marketing Organizations

Two fundamental issues have to be considered while organizing marketing activities. First, the time to be taken for achieving a particular marketing objective with the aid of both the internal organization (i.e. employees) and the external organization (i.e. alliances formed for marketing) needs to be considered. The second aspect relates to the organizing or structuring of both the internal and the external organization for the achievement of marketing objectives.

Factors leading to development of new marketing organizations are:

- *Failure of Traditional Organization Structures:* Traditional organization structures in marketing like product, functional, marketing and matrix structures were found to be inefficient, as they suffered from various weaknesses. These structures did not provide guidelines on whether the organization should go in for external support to carry out a particular task. They also did not provide any relationship between the environmental situation, the performance of a marketing function and the organization structure.
- *Factors Creating Complex Marketing Environments:* Development of new technology, formation of new economic boundaries, emergence of new players in the international market, etc., have made the marketing environment more and more complex. Organizations operating in such environments are being required to be innovative, efficient and flexible.

With the turn of the 21st century, various changes have come about in the structure of marketing organizations.

Modern Organizations: Many organizations have become less and less vertically organized with the elimination of various layers within the structure. Organizations like these have the capability of increasing the quality of production, reducing costs and providing more job satisfaction. Another major development in modern organizations has been the shift of emphasis from the management of functional departments like finance, personnel, production, etc., to business processes.

New Forms of marketing organizations have emerged as the response to the problem of dealing with a highly complex and dynamic marketing environment. The two new forms of marketing organizations are as given below:

Marketing Exchange Company

This is a type of marketing organization in which all the activities are focused on the markets and the consumers. The key strategic aspect of a marketing exchange company is the presence of a global network of information centers and marketing offices that are linked by a satellite and computerized information systems. A marketing exchange company could also be considered as a marketing network information company or a marketing information system.

Unit 21: Designing an Effective Marketing Organization

The following are some important aspects of marketing exchange company:

- The inputs to this system are market intelligence, details of customer queries, customer complaints and economic trends.
- The inputs are processed by sophisticated computer systems which will make the data available to the users.
- The marketing exchange company will be connected to the product suppliers located globally and information provided to them on product details, facility for providing customized designs, prices, stock level, time required for production, formalities associated with the business, etc.
- The information system can easily identify any variations in the requirements of customers or suppliers. With the aid of an online network, discussions with clients can also be carried on across the globe on a real-time basis and decisions can be arrived at within a short span of time.

The marketing exchange company can be considered as a hybrid of the following two types of companies, both of which exhibit characteristics similar to market exchange companies.

- *Hollow Companies:* Hollow companies have little or no manufacturing activities and their efforts are concentrated on marketing activities alone. They have emerged from extensive outsourcing of labor-intensive activities to low labor cost companies.
- *Trading Company:* A trading company is another kind of marketing exchange company, but the orientation is more towards suppliers than consumers. As a result, the use of organizational resources and infrastructure will be more towards distribution than toward marketing. Unlike a marketing exchange company, a trading company will have a national base and will mainly serve only the needs of the particular nation in which it is operating.

Marketing Alliance Company

A marketing alliance company acts as a functionally specialized marketing organization which coordinates a network of strategic alliances, hence it can be called a functional alliance rather than a strategic alliance. It is a horizontally organized company which acts as the hub to coordinate the activities of various specialist manufacturers. The independent functional units with which alliances are formed generally perform various functions like technology development, manufacturing and engineering.

All the firms with which the marketing alliance company forms alliances will specialize in one function or the other. These firms may also be partly owned by the marketing alliance company, but the functioning will be autonomous in nature. The alliances formed in a marketing alliance company will be formal and stable in nature, unlike in a marketing exchange company.

Check Your Progress - 2

4. Which of these is not a common organization structure used by the traditional marketing organizations?
 - a. Functional organization
 - b. Price organization
 - c. Market organization
 - d. Matrix organization
 - e. Product organization
 5. Under which of the following types of matrix organization structure model, the employees of the organization will officially be members of two organizational divisions?
 - a. Functional
 - b. Balanced
 - c. Project
 - d. Price
 - e. Geographic
 6. Which one of the following is a horizontally organized company which acts as the hub to coordinate the activities of various specialist manufacturers?
 - a. Marketing exchange company
 - b. Marketing alliance company
 - c. Marketing skills company
 - d. Perfectly Marketing company
 - e. Marketing consultancy
-

21.5 Selecting an Organization Design

In selecting an organization design, market and environmental factors, the organizational characteristics and marketing strategy generally adopted by the organization need to be considered. The organization structure should facilitate the achievement of the marketing strategy. Marketing organization design should also consider various elements of the marketing communication mix like personal selling, advertising, direct selling, public relations and so on, it should also be flexible enough to adjust to the changes in the business environment.

Let us examine in detail the three major considerations to be made in selecting an organizational structure, as given below:

21.5.1 Organizing Marketing Activities and Structure

The implementation of a marketing strategy is affected to a good extent by how the marketing activities are organized.

There are four kinds of organizing concepts typically used in marketing which are categorized on the basis of the degree of formalization, centralization and specialization existing in them, which are as given below:

- *Formalization:* Formalization is the degree to which activities and relationships are governed by rules, procedures and contracts.
- *Centralization:* Centralization refers to whether the decision authority is held strictly by the top management or is delegated to the middle and lower level management.
- *Specialization:* Specialization refers to the degree to which tasks and activities are divided in the organization and the degree to which workers have control in conducting those tasks.

The Bureaucratic Structure

It is centralized, formalized and non-specialized in nature, it is most suitable for accomplishing tasks that are repetitive in nature and which are mainly internally organized. It is appropriate in conditions when environmental uncertainty is less and best suited for activities that require specialized assets. In a bureaucratic structure, there will be centralized control and the central control mechanism will monitor and assess the performance of the activities.

The Transactional Structure

It is centralized, formalized and non-specialized in nature which is most suitable under competitive market conditions. It mainly involves the relationship of the organization with external suppliers of the organization which will also be centralized, formalized, and non-specialized. This is most suitable for tasks that are repetitive in nature and which can be easily measured, but not for planning and coordinating marketing programs that have a wider scope. Discrete marketing tasks like the purchase of an advertisement spot on television or the purchase of market research data from an external agency, etc., are more suitable for this structure.

The Relational Structure

In this structure, activities are organized through a relationship with external suppliers. This structure is generally adopted in conditions of a highly uncertain business environment and when the tasks are difficult to evaluate and are non-routine in nature. A relational structure is more specialized and is relatively less centralized and formalized in nature.

The Organic Structure

This structure is used when the market situation is highly uncertain. In such a situation, marketing activities are better organized internally with a decentralized, less formalized and highly specialized structure. An organic structure is highly effective in meeting the changing environmental situations and this structure remains highly effective over a period of time. It is usually adopted for planning and development of new products.

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21.5.2 Marketing Environment and Structure

Any organization which tries to adapt to the changing marketing environment will seek to gain a competitive advantage in the new situation, reduce costs, and develop a more flexible organization structure. Thus, the organization will have a variety of objectives, the organizational structure has a great influence on the ability of the organization to cope with a highly volatile business environment. In a highly complex marketing environment, organizations will increasingly seek alliances or form a network with other organizations.

The marketing functions will be performed through interactions among a number of independent but closely related firms, which are network partners. The environmental conditions which favor the formation of marketing networks include fast technological innovations, shorter product life cycles, clearly segmented consumer preferences and the presence of a market base which extends beyond the national boundary.

The following is a list of activities that organizations undertake to reform their marketing organization structure in a volatile business environment:

- Making customer satisfaction and retention the priority of the organization by increasing the responsiveness of the organization.
- Reducing the number of organizational levels and making the organization horizontal in structure.
- Eliminating organizational bureaucracy.
- Re-engineering of business processes.
- Redoing the organization design to make better use of multi-functional groups in the organization.
- Obtaining more flexibility and speed in the execution of marketing strategies.
- Empowering employees by making available better organization systems.

21.5.3 Innovativeness and Structure

The innovativeness of an organization is likely to have an impact on its organizational structure. Innovative organizations are more likely to have flexible structures which assist in the development and execution of new ideas.

Example

As of Feb 2022⁹, Apple organizational structure contributes to effective and rapid innovation, as it is a critical success factor of the information technology business, online services and consumer electronics industries. The corporate structure supports strategies that push for further technological innovation.

Source: ICFAI Research Center

⁹ <http://panmore.com/apple-inc-organizational-structure-features-pros-cons> accessed on 23.2.22

Check Your Progress - 3

7. Which of the following is the degree to which activities and relationships are governed by rules, procedures and contracts?
 - a. Formalization
 - b. Centralization
 - c. Specialization
 - d. Colonization
 - e. Uniformity
 8. In which type of structure will there be centralized control and the central control mechanism will monitor and assess the performance of the activities?
 - a. Transactional
 - b. Bureaucratic
 - c. Relational
 - d. Organic
 - e. Hybrid
 9. Which of the following environmental conditions do not favor the formation of marketing networks?
 - a. Fast technological innovation
 - b. Shorter product life cycles
 - c. Clearly segmented consumer preferences
 - d. Price fluctuations in the market
 - e. Both short product life cycles and fast technological innovation
-

21.6 Global Dimensions of Organizations

The challenges and market conditions faced by multinational organizations (MNCs) vary across the countries in which they operate. The stage of globalization of various business units of an MNC also differs. The MNC will generally have some businesses that are truly local and some businesses that are global; and this necessitates a proper balance between local and global businesses.

Many MNCs take advantage of the countrywide differences in production costs, human resource skills, taxes, etc., and modify the structure of their individual businesses along with the three dimensions of product, geography and function. This allows these MNCs to run their individual businesses from the location which is most suitable and not necessarily from the corporate headquarters. Global organizations, however, face many problems related to standardization, control, etc.

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In examining the dimensions of a global organization, various aspects that can be covered include the considerations in global organizations and deciding on the organization structure. These are discussed here in detail:

21.6.1 Considerations in Global Organizations

In multinational organizations, the three most important concerns that managers face are identifying the necessity for reorganization, the most effective way to integrate international operations with local operations and the most effective structure which will help to achieve organizational goals. The three important considerations in global organizations are:

Identifying the Necessity for Reorganization

The necessity of reorganizing a multinational business organization will differ to a good extent from the necessity of reorganizing a business which operates in only one country. Most often, MNCs reorganize to introduce new products, to improve organizational performance, or to make way for changes taking place on account of an increase in sales or the drastic changes that take place in the political system of a country. It is not an easy task to identify whether there is a need for reorganization or not. There are various signals that will help an organization to identify if reorganization is necessary.

Identifying the Effective Way for Integration

In reorganizing a multinational business, a major issue to be considered is the incorporation of all the geographically dispersed organizational components. Other issues involve the integration of various areas like finance, long range planning, short range planning, new product development, sales, distribution, and so on. The effective integration of these elements will provide the organization with economies of scale, technological advantages and better marketing opportunities. However, integration of these elements also raises major problems like differences of opinion among the managers of different functions.

Identifying the Most Effective Structure

Identifying the most effective organizational structure is a difficult task since various challenges are associated with it like political pressures, environmental ambiguity, etc.

Situations creating organization structure problems are:

- *Deferring Decision Making:* This prompts many organizations to defer the decision regarding selection of the most suitable organization structure for achieving their marketing strategy and objectives.
- *Reacting to Inconsequential Problems:* Another problem is managers responding to problems that are transitory in nature and without properly assessing the environmental situation.

Factors: Various factors have to be taken into consideration for identifying the most effective structure for an organization are: The nature and intensity of competition in the market, the extent of customer service to be provided to the customers, the number of product lines, the nature of products, the nature of operations regarding whether it is a manufacturing organization or if it is both a manufacturing and marketing organization as well as the extent of operations i.e. if it is a local, national, or multinational organization.

21.6.2 Types of Global Organization Structures

Any organization structure has limitations as well as strengths and organizations need to decide on their organization structure after carefully evaluating various factors like product characteristics, market characteristics, human resources, management control, standardization, etc. On the basis of these factors, multinational organizations can decide to go in for various structures like domestic organization, volume expansion, resource acquisition, international division and so on.

Domestic Organization

Most organizations start business with a local perspective which is confined to the country's political boundaries. However, when opportunities emerge for export of products, the domestic organization makes use of these opportunities. Such exports may not require any direct foreign investment. Thus, for a domestic organization, export revenues are an additional opportunity apart from domestic sales.

Initially, such organizations may even view foreign opportunities as an inconvenience and take them up only for the profit opportunities. However, when the foreign opportunities substantially increase, the domestic organization will have to restructure substantially to gain more benefits from the foreign operations.

Volume Expansion

For an organization which is not planning to expand its foreign operations outright, the simplest restructuring strategy that can be followed is the appointment of a person to manage the international operations or the creation of an international department as an extension of the existing organization.

The two important stages of volume expansion are:

- The domestic orientation of the organization will be retained as the organization structure remains more or less unchanged. Moreover, this type of arrangement will not add to the complexity of the organization structure.
- The next stage is the formation of an international division, the responsibility of which usually includes the development of the foreign market as well as coordination of domestic market operations with international operations.

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International Division

An international division is generally formed when the foreign market is being expanded through volume expansion, acquisition, etc. The international division will be located at the headquarters of the organization but can provide expertise as well as a focused approach toward international marketing. The division may be structured on the basis of functions, product line, geography, or a combination of these.

Functional structure: The functional structure will follow the organizational structure of the parent organization on the basis of functions. Some of the advantages associated with functional organization in international operations are the ability to achieve manufacturing efficiency, the ability to provide comprehensive marketing services to clients, the ability to achieve innovativeness in production techniques and so on.

Product line structure: In a product line organization, specific responsibility will be assigned to the performance of each product line. The product line division of the parent firm will be replicated in the international division also.

Geographic structure: This is the most common organization structure among international divisions. It is most effective when the organization's activities are spread across the globe and if the product lines are relatively fewer in number. The geographic structure enables an organization to coordinate its activities within a particular geographic area. Each geographic region may be treated as a separate profit center under this structure.

Example

The Coca-Cola Company's operational structure includes four geographic operating segments (as of February 2022¹⁰): Europe, Middle East & Africa; Latin America; North America; and Asia Pacific. The company reporting structure also includes the non-geographic segments of Global Ventures and Bottling Investments Group (BIG).

Source: ICFAI Research Center

Matrix structure: It was found that if an organization focused on a single aspect – geography, function, or product line – it gave rise to many weaknesses like the difficulty in accommodating the interests of a function, product line, or geography to the market situation. The weaknesses associated with these structures led to the development of the matrix organization, which helped to fully integrate these operations of the international division.

¹⁰ <https://investors.coca-colacompany.com/about/segments> accessed on 23.2.22

Check Your Progress - 4

10. Which of the following is not a valid exercise in global organization restructuring?
- Identifying the need for restructuring
 - Integration of organizational functions
 - Identifying the most effective structure
 - Viewing corporate strategy and organization structure in exclusion
 - Conduct a value chain and work flow mapping exercise
-

21.7 Summary

- Organization structure is the formal and informal framework within which people work to achieve organizational objectives.
- Designing and implementing a suitable organization structure is necessary for the implementation of marketing strategy.
- The options that are available for designing the marketing organization can be grouped into traditional structures and new forms.
- Traditional structures include functional, product, market and matrix organizations.
- In selecting an organization design, the factors that are to be considered include the market and environmental situation, organizational characteristics and the marketing strategy generally adopted by the organization.
- Implementation of the marketing strategy is affected to a great extent by how the marketing activities are organized.
- There are basically four kinds of organizing concepts typically used in marketing – bureaucratic, transactional, corporate and relational.
- Organizations operating in global environments have to design the structure, keeping in mind the market conditions in which they operate.
- Global organization restructuring involves steps like identifying the need for restructuring, integration of organizational functions and identifying the most effective structure.
- Multinational organizations go in for various structures like domestic organization, volume expansion, resource acquisition and international division.

21.8 Glossary

Flat Organization: An organization structure which has few levels of hierarchy

Organization Structure: The American Marketing Association defines organization structure as the formal and informal framework within which people work to achieve organizational objectives. It includes the establishment of positions along with descriptions of their duties, responsibilities, authority, reporting relationships, and assignment to groups.

Marketing Exchange Company: Marketing exchange company is a type of marketing organization in which all the activities are focused on the markets and the consumers.

Marketing Alliance Company: A marketing alliance company acts as a functionally specialized marketing organization which coordinates a network of strategic alliances. It is a horizontally organized company which acts as the hub to coordinate the activities of various specialist manufacturers.

Span of Control: Refers to the number of employees who report to a supervisor.

Tall Organization Structure: A pyramid like organization structure that has many levels of hierarchy.

21.9 Self-Assessment Test

1. Explain various considerations in the organization design of a marketing organization.
2. Describe various options in designing an organizational structure.
3. Explain various factors to be considered in the selection of an organization design.
4. Discuss the problems associated with global marketing organizations and identify the considerations undertaken by multinationals in designing global organizations.

21.10 Suggested References/Reading Material

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2. Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
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21.11 Answers to Check Your Progress Questions

1. (a) Inappropriate marketing organization structure

The reason for the failure of many marketing strategies is often an inappropriate marketing organization structure.

2. (d) Power Balance

In a vertical structure, the factors to be considered include the reporting relationships, scalar chain departmental groupings in the organization, as well as the information flow. Power and authority is concentrated at the top hence power balance is not an important consideration.

3. (b) Horizontal organization structure

A horizontal organization structure implies the movement from the functional or vertical organization to an organization that is aligned along core processes that meet the needs of the customers.

4. (b) Price organization

Traditional marketing organizations use four types of structures – functional, product, market/geographic and matrix organizations.

5. (b) Balanced

A balanced matrix is the classic model of the matrix organization. The employees of the organization will officially be members of two organizational aspects – the functional and the product organization.

6. (b) Marketing alliance company

A marketing alliance company is a horizontally organized company which acts as the hub to coordinate the activities of various specialist manufacturers.

7. (a) Formalization

Formalization is the degree to which activities and relationships are governed by rules, procedures and contracts.

8. (b) Bureaucratic

In a bureaucratic structure, there will be centralized control and the central control mechanism will monitor and assess the performance of the activities.

9. (c) Price fluctuations in the market

The environmental conditions which favor the formation of marketing networks include fast technological innovations, shorter product life cycles, clearly segmented consumer preferences and the presence of a market base which extends beyond the national boundary. Hence, option 'd' is an environment conditions that does not necessarily trigger shorter product life cycles. Price fluctuations may cause temporary instability.

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10. (d) Viewing corporate strategy and organization structure in exclusion

Global organization restructuring involves steps like identifying the need for restructuring, integration of organizational functions, and identifying the most effective structure, work flow mapping etc. Option 'd' is not a valid exercise because organization structure needs to support corporate strategy and the two can never be viewed in isolation.

Unit 22

Marketing Strategy Implementation and Control

Structure

- 22.1 Introduction
- 22.2 Objectives
- 22.3 Marketing Plan
- 22.4 Marketing Strategy Implementation
- 22.5 Strategic Evaluation and Control
- 22.6 Marketing Control
- 22.7 Summary
- 22.8 Glossary
- 22.9 Self-Assessment Test
- 22.10 Suggested References/Reading Material
- 22.11 Answers to Check Your Progress Questions

"In marketing I've seen only one strategy that can't miss - to market to your best customers first, your best prospects second and the rest of the world last."

- John Romero

22.1 Introduction

As rightly quoted by John Romero, the strategic objective of a firm should be focused on the best customers first. The strategies formulated need to be implemented to ensure achievement of the strategic objectives of the company. The entire process of implementation of strategic plans involves organizing and directing people, preparing a comprehensive list of activities to be performed, assigning responsibilities to people and deployment of required resources in this regard.

The previous unit dealt with various considerations in organization design, organizational structure design options, factors to be considered in the selection of an organizational design and considerations undertaken by multinationals in designing global organizations.

In this unit, we will discuss marketing strategy implementation and its control, strategic issues with regard to marketing plans, prerequisites for effective implementation of marketing strategy and barriers to implementation of marketing strategy, process of strategic evaluation and control, the concept of strategic marketing audit and different types of control.

Block 4: Organizational Effectiveness and Control in Strategic Marketing

22.2 Objectives

After reading this unit, you should be able to:

- Define a marketing plan and discuss the strategic issues with regard to the marketing plans.
- Discuss the prerequisites for effective implementation of marketing strategy and barriers to marketing strategy implementation.
- Interpret the process of strategic evaluation and control and the concept of strategic marketing audit.
- Discuss different types of control.

22.3 Marketing Plan

Marketing planning is a logical sequence of activities that involves the setting of marketing objectives and the formulation of a marketing plan to achieve those objectives. It is the process of identifying ‘what’ and ‘to whom’ the sales are to be made in the long term, in order to achieve the sales target and to generate revenues.

Some of the benefits of having a formalized marketing planning process are:

- It results in improved communication among employees of the organization.
- It enhances coordination among employees whose activities are interrelated.
- It allows companies to anticipate developments over a period and the extent of preparation to meet them.
- It helps in reducing conflicts among employees.

Example

Reliance Jio successfully formulated a marketing plan with one of its important marketing objectives of market penetration and achieved the objective. As of Dec, 2021¹¹ market share of the company still remained the highest at 36 percent followed by Airtel with 30.81 percent.

Source: ICFAI Research Center

Strategic Issues Faced with Regard to the Marketing Plans

However, in spite of having perfect systems for marketing planning, the marketing plan can become dysfunctional if it is not implemented properly.

¹¹ <https://gadgets360.com/telecom/news/jio-reliance-vi-vodafone-idea-lose-subscribers-airtel-bsnl-gain-december-2021-traf-report-2773651> accessed on 23.2.22

The four important strategic issues faced with regard to the marketing plans are discussed here.

22.3.1 Lack of Adequate Support from Top Management

It is not possible to develop a formalized marketing planning system in an organization without adequate support from the top management. The CEO should identify the need for a formal marketing planning system. It is not easy for a senior functional manager to initiate and formalize the procedures for marketing planning.

Some important considerations of top management support are:

The CEO and the top management have to determine the role the employees will play in planning and implementing the marketing strategy. This means that they have to take into consideration the organization culture and the personality of the people involved. Any system in the organization has to be built around the employees, while taking into consideration their beliefs and attitudes.

Another consideration for developing a marketing planning system is resource availability and organizational constraints. In some organizations, marketing is not perceived as an important activity and this can result in the top management not giving due importance to the marketing function.

22.3.2 Lack of Support from Line Management

Reasons for Lack of Support from Line Management: The introduction of a new marketing planning system in an organization is often met with opposition, which can also result in an unsupportive line management. The hostility to new marketing activities, employees' lack of skills or capabilities or resources to perform certain activities and poor organizational structure can result in an unsupportive line management. Lack of information is another problem, which can be solved by allocating the proper amount of time and resources for the collection of reliable information.

Measures to get Support from Line Management: The capabilities of the personnel can be enhanced by providing them with training. The top management has to take action to gain the support of the line management for the new system. With a supportive organization structure, the marketing planning system, which requires the collection, analysis and diffusion of information, is likely to be successful.

22.3.3 Isolating Marketing Planning from Corporate Planning

Often, another problem is that marketing planning is isolated from corporate planning. However, if it is to be successful, marketing planning should be properly integrated with the corporate planning system.

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22.3.4 Perceived as Once-a-Year Activity

Marketing planning is generally perceived to be a ritual that has to be performed once in a year. In such a situation, it is considered to be a time-consuming, unimportant activity. It is perceived as a mandatory activity that has to be performed mechanically without the time and resources being invested in it. The management rarely refers to these plans after they have been formulated.

22.4 Marketing Strategy Implementation

Once the marketing strategy has been formulated, the next step is its implementation. No matter how well it is formulated, if it is not implemented properly, a marketing strategy just cannot be effective in the competitive business environment. The importance of implementation is clear from the fact that sometimes, companies undertake meticulous planning and yet fail.

The implementation of the marketing strategy has two important considerations, i.e.

- *Structure of the Organization:* The structure of the organization includes the policies, procedures and control systems.
- *People Involved:* The people involved are the managers who are responsible for getting the marketing job done. Marketing strategy and effective implementation are dependent on each other.

Activity 22.1

VS Dairy Ltd., is a leading Haryana-based dairy company offering milk and milk products. The company's success was attributed majorly to its efficient distribution network, which ensured that its products were delivered in time to the consumers. The distribution network also enabled it to deliver fresh products to the consumers. The company set up its operations in several other states in India. It tasted success in most of the markets except in North eastern states of India where the distribution network was not strong. The consumers often complained of the quality of the products, since the delivery could not be made on time. Identify and discuss the barriers faced by the company that hindered the company in effective implementation of its marketing strategy. Suggest ways that could help the company in effective implementation of its marketing strategy and keep up its reputation.

Answer:

Check Your Progress - 1

1. An improvement in communication among employees of the organization is a benefit of which of the following?
 - a. Equilibrium in the market
 - b. Formalized marketing planning process
 - c. Profit maximization for the organization
 - d. Sales maximization by sales department
 - e. Effective implementation of marketing policy
 2. Market planning should be properly integrated with which of the following?
 - a. Government planning system
 - b. Corporate planning system
 - c. Price planning system
 - d. Production planning system
 - e. Planning of Information System
 3. Which of the following is one of the important considerations for the implementation of the marketing strategy?
 - a. Structure of the organization
 - b. People involved in the implementation process
 - c. Formulation of the plan
 - d. Both structure of the organization and people involved in the process
 - e. Effective implementation of systems and processes
-

22.4.1 Prerequisites for Effective Implementation

The implementation aspect of the marketing strategy is very important. There are four skills that are prerequisites for effective implementation of the marketing strategy, which are as discussed here:

Coordinating

Interaction plays a vital role in the marketing function. The nature of marketing focuses on influencing people both within and outside the organization. Within the organization, the marketer has to influence the different functional personnel and coordinate with them for effective marketing performance. Outside the organization, the marketer has to influence people from advertising agencies, consultants, customers and so on.

Assigning

The proper allocation of resources plays a vital role in the implementation of the marketing strategy. An effective manager avoids over-allocation or under-allocation of resources by properly analyzing the resource requirement.

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Examining

The effectiveness of the marketing implementation can be measured only through a proper monitoring system.

Organizing

Marketers should have the ability to identify and solve the problems that arise after implementation. They should effectively allocate authority and responsibility along with tasks to the people in the organization. The marketers should have the ability to restructure the organization to optimally utilize the available resources and to meet the marketing objectives.

Other Requirements for Implementation of the Marketing Strategy

Other five important requirements for implementation of the marketing strategy are discussed here:

Effective Communication

Communication plays a vital role in the implementation of the marketing strategy. The marketing strategy should be communicated throughout the organization and to all the stakeholders. The communication should specify the role each employee should play in the achievement of the marketing objectives. An effective communication system specifies which of the elements of the marketing strategy should be communicated and to whom and how.

Planning

Strategy formulation must precede planning. Planning should be made a part of the strategy implementation process. Effective planning leads to better implementation of strategy in the organization.

Restructuring the Organization

Structure follows strategy. However, many CEOs restructure their organizations and then formulate strategy. Only when the strategy formulation is complete can the organization be restructured. The strategy should be aligned with the structure, for the organization to be successful and the structure should support the culture and leadership style of the organization.

Reducing the Complexity

Many organizations have a number of complex business processes due to the number of products, markets, segments, suppliers and so on. This complexity can result in an ineffective implementation of the strategy, due to the lack of common perspective between all the players. An organization can benefit to a large extent by reducing the complexity of its business processes.

Issue Resolving System

The set of processes which ensures flawless implementation of marketing strategy is an issue resolving system. Some of the issues that can arise during marketing strategy implementation are a dilemma between alternative courses of action, detection of how/why a problem occurred and so on. A common issue resolving system for an organization provides common working policies for employees of various functional units or functional teams.

The system consists of policies and procedures to resolve the human, operational and strategic issues. The efficiency of the issue resolving system is measured by the speed with which issues are resolved and the quality of the resolution.

22.4.2 Barriers to the Implementation of Marketing Strategy

There are four important barriers to the implementation of the marketing strategy and these can arise at every level in the organizational structure, which are discussed here:

Marketing Functions

There are barriers to implementing the marketing strategy that arise from the marketing functional unit. The marketing functional unit is involved in activities such as selling, promoting and distributing. Some of the barriers to implementation of marketing strategy arise while performing these activities.

Example

Hindustan Unilever Limited for its brand Glow & Lovely (earlier Fair & Lovely) created advertisements which show the whitening effect as much as six times whiter than before. The ad depicts a woman becoming fairer and happier after using the product. As of July 2020¹² Fair & Lovely accounts for 40% of the face care category in India. It renamed the brand as it has drawn flak for promoting negative stereotypes related to darker skin tones. The earlier brand name and promotions acted as a barrier to implementation of its marketing strategy.

Source: ICFAI Research Center

Marketing Programs

A marketing strategy requires the efforts of both marketing and non-marketing functional units like personnel, finance, operations, etc. A marketing program involves the combination of marketing and non-marketing functions to target a segment. Lack of coordination between the marketing and non-marketing functional efforts can act as barriers in implementation.

¹² <https://www.livemint.com/companies/news/hul-s-fair-lovely-renamed-as-glow-lovely-11593690657927.html> accessed on 23.2.22

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Marketing Systems

The marketing systems include monitoring, budgeting and other systems, which have an influence on the implementation of marketing strategy. These systems play a vital role in the success or failure of a marketing strategy. The barriers that occur at the marketing systems level are unavailability of resources and habitual errors (like measuring the profitability of the company by the market share, which may at times be misleading).

Marketing Policies

The marketing policies are basically of the following two types:

- *Identity Policies:* These define what the company is and the marketing culture and marketing orientation of the organization. At times, the identity policies act as barriers to the implementation of marketing strategy. The identity becomes even more important when the company is a well-established one.
- *Direction Policies:* These define what the company does. These refer to the leadership and marketing strategies of the organization. The lack of proper monitoring by the top management gives rise to problems, which act as barriers to implementation.

Check Your Progress - 2

4. Which of these is not a core skill required for effective implementation of the marketing strategy?
 - a. Coordinating
 - b. Assigning
 - c. Examining
 - d. Deciding
 - e. Organizing
5. Which of the following does not support effective implementation of the marketing strategy?
 - a. Effective communication
 - b. Planning
 - c. Structure
 - d. Loosely defined budget and timelines
 - e. Building effective team and procurement of necessary resources

6. Which of the following is involved in activities such as selling, promoting, and distributing?
- Marketing structural unit
 - Marketing functional unit
 - Marketing system unit
 - Marketing and Promotion unit
 - Marketing and PR unit
-

22.5 Strategic Evaluation and Control

Usually, the top management develops a good strategic evaluation and control system, but it falters in its implementation. This means that the top management actively participates in the first two steps, i.e. identification and setting standards and then passes on the responsibility of measuring, comparing and taking corrective action on to the lower levels of the management. This cannot result in effective strategic evaluation and control in an organization.

Steps: Strategic Evaluation and Control has the following five steps:

- **Identification:** The top-level management and the operational level management should identify the implementation processes and results that have to be evaluated and controlled. The implementation processes and results should be measurable in a reasonably objective and consistent manner.
- **Setting standards for performance:** The standards for measuring the performance should be identified. These standards should be a reflection of the strategic objectives of the company. They communicate the acceptable levels of performance. The standards also include a certain level of cushioning called the tolerance level. The tolerance level allows a certain amount of deviation in the expected performance.
- **Measurement:** The actual performance or results are measured at predetermined time periods (to have consistency in the measurements).
- **Comparing with the standards:** The actual performance is compared against the standards or expected results. If the actual performance levels are within the tolerance range of the standards, the evaluation process stops there.
- **Corrective action:** If there is a significant deviation in performance from the standards, then corrective action has to be taken.

Before taking corrective actions, the following should be considered:

- Are the deviations in performance temporary fluctuations?
- Is there any problem in the implementation of the processes?
- Are the present processes in implementation suited to meet the standards?

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The answers to these questions not only enable the management to solve the problems but also help them to avoid similar problems in the future.

The advantages of strategic evaluation and control are as given below:

- The process of strategic evaluation and control enables the management to measure the performance of the organization.
- It enables the comparison of performance with the expected results.
- Strategic evaluation and control helps the management to identify any significant differences in the actual performance over the expected results and to take corrective actions if needed.

22.5.1 Strategic Marketing Audit

One of the most useful tools in strategic evaluation and control is the strategic marketing audit. It enables a company to define the present market situation, forecast the future situation and to analyze the organization's marketing performance and potential. The strategic marketing audit enables the management to record past experiences and use them to forecast future opportunities.

It is a powerful framework for providing information to the top management or policy makers. This audit provides a systematic and objective evaluation of an organization, in addition to providing information about its market dynamics.

The strategic marketing audit has three analytical phases as given below:

1. The first phase involves the extensive diagnosis of the organization's past and present marketing situation.
2. The second phase involves a prognosis of the organization's position in the future situation.
3. The third phase involves introducing new policies or making the necessary changes in the present policies.

Roles: The strategic marketing audit has many roles to play in an organization, some of which are:

- To communicate marketing information, the role which strategic marketing audit plays in an organization influences the manner in which the information is being used.
- To increase awareness about marketing activities.
- To act as a tool to ensure proper implementation of marketing activities.
- To act as a tool for marketing control, certain organizations use marketing audit as a part of their strategic evaluation and control process.
- To act as a tool to introduce changes in the marketing practices or activities of an organization.
- To play the vital role of orienting the organizational analysis and control.

Exhibit 22.1 illustrates the marketing audit failure of Mercedes-Benz & Daimler AG which led to emissions cheating.

Exhibit 22.1: Marketing Audit Failure of Mercedes-Benz & Daimler AG

Daimler AG and the parent automaker of Mercedes-Benz USA was forced to pay \$1.5 billion to different government bodies and another \$700 million to car owners due to marketing audit failure in identifying the emissions cheating scandal.

Daimler Emissions Cheating Scandal: Daimler illegally attempted to falsify emission tests for Mercedes-Benz vehicles between 2009 and 2016. But under the Clean Air Act, car exhaust must meet strict limitations on emissions of nitrogen oxides and other harmful chemicals. This allowed Daimler to sell 2,50,000 vehicles that otherwise could not have passed inspection. This scandal was revealed in 2020.

Marketing Audit Failure: Daimler basically failed to identify the consequences of such illegal practices to the company. The consequences were payment of huge fines to the government and customers and decrease in the brand image among customers. If the marketing department had tried to identify these consequences then they would have saved a lot of money and reputation for the firm.

Future Measures: The automaker must install a strong whistleblower program, enhance training for employees and perform internal audits reviewed by a third-party compliance consultant for controlling such scandals. It must change its internal audit procedures and fund projects to reduce pollution elsewhere. Such measures would increase the trust about the company among the customers and the government.

Sources: i) <https://www.investopedia.com/articles/company-insights/092716/top-6-companies-owned-daimler-ag-ddaif.asp> Accessed on 23.2.22
ii) <https://www.cars.com/articles/mercedes-benz-diesel-recall-what-owners-need-to-know-427826/> Accessed on 23.2.22

Advantages of strategic marketing audit are:

- **Device for communication:** The strategic marketing audit helps in developing a relationship between the marketing function and strategic thinking within an organization. It helps marketers to translate organizational policies into a marketing framework and to develop market orientation. It can be used to communicate the organization's marketing policies and procedures to the employees and also to gain their commitment.
- **Tool for analysis:** The strategic marketing audit helps in comprehending and analyzing the information. The auditing decisions need to be formulated to demonstrate the viability of marketing concepts and methods in managing the activities of the organization. The strategic marketing audit guides the marketer to define and evaluate the strategic relationships and policies within an organization.

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It also helps in applying the marketing concepts to past, present and future situations. The audit is an ideal tool for analyzing the strengths, weaknesses, opportunities, threats and critical factors that can result in the strategic success of the organization.

- *Supportive tool in decision-making:* The most important use of strategic marketing audit is the support it provides for effective decision-making. The audit provides the information that can stimulate effective actions and decisions from the management.
- *Policy framework:* The strategic marketing audit can be used for developing a policy framework for monitoring the marketing activities of an organization. The organizational goals and marketing policies should be clear in an organization, if the marketing activities are to be effective.

Selecting Criteria for Assessing Performance

Performance is the end result or output of a process. The criterion for measuring the performance of a given unit depends upon the functional unit being assessed in the organization.

Criteria for Measurement in Strategic Management: The commonly used criteria for measurement in strategic management deal with profits, return on investment (ROI) and so on. These criteria help the management to measure performance after the strategies have been implemented. The ROI can be used to measure the profitability of a business division or segment.

However, though profitability is an important consideration for a business, it cannot be used for assessing certain objectives like employee development, etc. The ROI cannot be used for assessing the performance of the marketing plan or its implementation.

Criteria for Measurement in Marketing Performance: The criteria that can be used to measure the marketing performance are sales, revenues, market share, customer satisfaction and so on. The intense competitive environment and the pressure to cut costs have resulted in an increased focus on performance measurement. When looking to cut costs, the companies generally resort to cutting marketing costs as they consider these as unnecessary or additional costs, which can be reduced or avoided.

In addition, the marketing personnel are pressurized to show the ROI on marketing activities. However, the measurement of marketing performance is difficult because of the lack of standard measurement systems.

Obtaining and Analyzing the Information

Information is the basic requirement in strategic evaluation and monitoring. The information required for strategic evaluation and control can be general or specific. The general information is provided from various internal and external sources like segment reports, annual reports, industry reports and market surveys.

Specific information is required for new product introduction, analyzing promotional effectiveness, etc.

Sources for obtaining and analyzing information are:

Internal information systems: These are a vital source of organizational information and they provide reliable and timely information. The internal information system of a company provides information regarding the products; marketing activities implemented; resources available; and so on.

Standardized information services: This information source is external to the organization. Companies do not need to invest too much time or money on obtaining information from these standardized information services. However, there is the drawback that the information provided by these services may not meet the exact information requirements of the company.

Specialized research studies: The studies initiated for a specific purpose or due to a problem situation or due to specific information requirements are specialized research studies. Some of the specialized research studies include the possibility of a new product acceptance in the market, product usage tests, and so on.

Performance Assessment

There are no standard rules for assessing the marketing performance of an organization. This makes the assessment process difficult and complicated. Performance cannot be described in absolute terms. In the case of marketing, it can be defined in terms of results achieved with respect to the efforts of the company.

The marketing performance of an organization can be assessed in terms of the sales analysis and marketing cost analysis as discussed here.

Sales analysis: It is used for analyzing and monitoring the sales efforts of the company. Sales analysis is a method for monitoring marketing strategies, wherein sales figures are used to assess the current performance of the organization. The results of the sales analysis can be used to identify the marketing strengths and weaknesses of the company and to formulate effective marketing strategies.

The basic activity in sales analysis involves obtaining information about sales over a period of time (monthly or quarterly). Sales analysis is most commonly used for measuring marketing performance because the sales data is readily available and it also provides an indication of the target market's reaction to the marketing efforts of the company.

A sales transaction is the basic unit of measurement in sales analysis. It represents the number of orders placed by customers for a given product with a salesperson or a sales group on a specific date. The present sales transaction data can be used to measure the marketing effectiveness of a company. However, the marketing effectiveness can be measured more effectively when used with the forecasted sales.

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Marketing cost analysis: The analysis of the costs incurred in marketing efforts help in measuring the marketing effectiveness of the organization. Marketing cost analysis is the method whereby the costs are broken down and classified to determine which costs are associated with which marketing activity. The marketing cost analysis helps to identify the profitable and unprofitable product or market segments, while enabling the company to isolate segments which are experiencing high costs.

The marketing cost analysis begins with the analysis of the costs incurred by an organization. The costs like the rent and salaries are expenditures.

Classification of Costs in Marketing Cost Analysis:

Direct Costs: The costs which are directly related to the performance of a specific marketing activity are called direct costs.

Traceable Costs: The cost of hiring a person for answering customer queries is a traceable common cost.

Non-Traceable Costs: Costs which are arbitrary in nature and cannot be related to marketing activities (either directly or indirectly) on a logical basis are called non-traceable common costs. Some of the non-traceable common costs are interest, taxes, etc.

Approaches for Analyzing the Marketing Costs:

Full-Cost Approach: In full-cost approach, all the three costs, i.e. direct, traceable and non-traceable costs are taken into consideration.

Direct-Cost Approach: Here, only direct and traceable costs are taken into consideration.

Check Your Progress - 3

7. The process of strategic evaluation and control enables the management to accomplish which of the following management functions?
 - a. Control the price strategy in the market
 - b. Measure the performance of the organization
 - c. Monitor the skills of the labor in the organization
 - d. Measure sales
 - e. Measure problems faced
8. Which of the following is used as a device for communication, as a tool for analysis, as a supportive tool in decision-making and to develop a policy framework?
 - a. Strategic evaluation
 - b. Strategic systems
 - c. Strategic control

- d. Strategic marketing audit
 - e. Strategic control audit
9. Return on investment is used to measure/assess which of the following?
- a. Employee performance
 - b. Performance of the marketing plan
 - c. Profitability of a business segment
 - d. Performance of individual salesperson
 - e. Investment made in training of sales personnel
10. Sales, revenues, market share, and customer satisfaction are the criteria commonly used for assessing which of the following?
- a. Marketing performance
 - b. Profit maximization
 - c. Market strategies
 - d. Market plans
 - e. Market environment
-

22.6 Marketing Control

Control has long been considered as a management practice. However, in relation to marketing, control has not received much attention. In spite of its growing importance to strategic marketing, marketing control is still not given enough importance.

Levels of Marketing Control:

Organizational Level: At the organizational level, the failure to match controls with the organizational structure can result in the decline in organizational performance in the long run.

Individual Level: At the individual level, the perception of being controlled can result in defensive action by the employees like information manipulation, presentation of false reports and so on. Such a situation can also result in tensions at the workplace and a lack of trust among employees.

Marketing Control Systems

There are two types of marketing control systems as given below:

- *Traditional Management Control Systems:* The traditional management control systems were output-oriented and focused on measuring the output for a given amount of input. The management specifies the performance target for the marketing executives and then measures the actual performance against the targeted performance. It then takes corrective action to enhance the performance of the executives if significant differences are found.

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- *Larger/Modern Marketing Control System:* To overcome these limitations, a larger marketing control system is required. The marketing control system focuses on the marketing plans and activities and not just on the marketing personnel.

Components of the marketing control system are:

- *Environment:* The environment takes into consideration the external, internal and operating environment of the organization.
- *Controls:* The controls involve both the formal and informal controls present in an organization. Put simply, formal controls are documented by the management, whereas informal controls are unwritten or perceived norms of behavior.
- *Consequences:* The outcome of the controls is in terms of marketing performance and individual performance.

Marketing control involves the following two controls:

- *Activity Control:* The activity control can be defined as the ‘process of ensuring that the marketing activities produce the desired results’. For instance, the increase in advertising expenditure to enhance the brand image of a company is an activity control.
- *Personnel Control:* Personnel control can be defined as the ‘attempts of the management and other stakeholders within the organization to influence the behavior and activities of the marketing personnel to achieve the desired results’. For instance, a motivation session for the marketing personnel is personnel control.

22.6.1 Types of Controls in Marketing Literature

There are two basic types of controls in the marketing literature – formal controls and informal controls. The basic difference between the formal and informal controls is that formal controls are initiated by the management and the informal controls are initiated by the employees. They are as given below:

Formal Controls

The formal controls are the policies and procedures that govern the actions and behavior of the personnel in the marketing functional unit, which are laid down by the management. The formal controls are influenced by the plans, budgets, and regulations.

There are three types of formal controls which differ from each other based on the timing of the management intervention, as given below:

- *Input Controls:* The input controls are the management efforts to ensure that the employees produce the desired results. They are the actions taken by the organization prior to the implementation of an activity. Some of the input controls are recruitment, training and development, resource allocation and so on.

- *Process Controls*: Process controls are the efforts to influence the process, so as to achieve the desired results.
- *Output Controls*: Output controls are the efforts for setting performance standards, monitoring, and evaluating the results achieved.

Informal Controls

Informal controls are the mechanisms initiated by the individuals, which influence the actions and behavior of personnel in the marketing functional unit. However, unlike the formal controls, the informal controls may not be supportive of the marketing objectives. The informal controls are influenced by the organizational culture and group norms.

There are three types of informal controls which are different from each other based on the level of aggregation i.e. from small group to large groups, as given below:

- *Self-Controls*: Self-controls are based upon personal objectives of employees and their attainment. This is a self-initiated control.
- *Social Controls*: Social controls involve the efforts to monitor the deviations in the accepted behavior among the group members. The social perspectives and the accepted patterns of interaction within a group are called social controls. Here, the control is initiated from the internalized values and mutual commitment to the common goals and interests of the group. In the marketing functional unit, the social controls are likely to prevail in various areas like advertising, sales, marketing research, etc.
- *Cultural Controls*: The cultural control involves the entire organization or an entire unit or division. Organizational culture can be defined as the values and beliefs that affect the behavior of the individuals in an organization. Cultural control focuses on the impact of culture on the individual's performance. It plays a vital role in the organization's marketing performance.

Example

Volkswagen was proved guilty in a diesel emission cheating case in 2020¹³ and it was sending a message to its employees that its values and beliefs are to cheat the public and the government. Such bad values and beliefs affect the behavior of the employees of the organization.

Source: ICFAI Research Center

22.6.2 Corrective Measures

After implementing the marketing plans, measuring the marketing performance, and assessing the variances, the next step is to take corrective measures. Control

¹³ <https://indianexpress.com/article/explained/volkswagen-dieselgate-scandal-6427918/> accessed on 23.2.22

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can be considered as a standard set for performance (these standards need not necessarily be quantitative). Any significant deviation from these standards would require corrective measures.

Some important considerations in taking corrective actions are:

- Determining the standards set by the managers for measuring the performance of individuals in the organization,
- Monitoring the actions of the individuals in the organization to check for any deviations from the standards set,
- Identifying the corrective action taken when deviations from the standards set are very significant.

Activity 22.2

WT Skincare Ltd., is a newly established skin care company offering herbal products in India. The company's headquarters is located at Mumbai and several of its stores have been set up in Hyderabad, Bengaluru, Kolkata, and Chennai. The company had appointed sales managers for every region and the sales executives were meeting all the targets set by the company. The company's aggressive marketing campaigns where it showcased benefits offered by its products had led to a sudden increase in its customer base. Subsequently, the headquarters increased the sales targets for all its stores across India. This was done in order to ensure that there was sufficient control over the marketing personnel of the company. Identify the type of control. Suggest how the headquarters can ensure that the marketing personnel are achieving their sales targets across India. Also discuss other types of control.

Answer:

22.7 Summary

- The strategic issues that have to be dealt with in marketing planning are the lack of support from the top management, poor planning, lack of support from the line management, isolation of marketing planning from corporate planning and the misconceptions about planning.
- Coordinating, assigning, examining and organizing skills are prerequisites in an organization for effective implementation of marketing strategy. In addition, it also requires effective communication, planning, restructuring of the organization, reducing the complexity of processes and an issue resolving system.

- The main barriers to the implementation of the marketing strategy can arise from marketing functions, marketing programs, marketing systems and marketing policies.
- The process of strategic evaluation and control enables the management to measure the performance of the organization.
- The strategic evaluation and control process involves the identification of what is to be measured, setting of standards for performance, measuring performance, comparing performance with the standards and taking corrective action.
- Strategic marketing audit is considered as a very useful tool in strategic control. The strategic marketing audit also acts as a device for communication, tool for analysis, supportive tool in decision-making and for developing a policy framework.
- The criteria commonly used for assessing marketing performance are sales, revenues, market share and customer satisfaction.

22.8 Glossary

Activity Control: The activity control can be defined as the process of ensuring that the marketing activities produce the desired results.

Formal Controls: The formal controls are the policies and procedures that govern the actions and behavior of the personnel in the marketing functional unit, which are laid down by the management.

Informal Controls: Informal controls are the mechanisms initiated by the individuals, which influence the actions and behavior of personnel in the marketing functional unit.

Marketing Planning: Marketing planning is a logical sequence of activities that involves the setting of marketing objectives and the formulation of a marketing plan to achieve those objectives. It is the process of identifying ‘what’ and ‘to whom’ the sales are to be made in the long term, in order to achieve the sales target and to generate revenues.

Marketing Cost Analysis: Marketing cost analysis is the method whereby the costs are broken down and classified to determine which costs are associated with which marketing activity.

Marketing Control Systems: A marketing control system develops the policies and procedures for monitoring the marketing activities.

Organizational Culture: Organizational culture can be defined as the values and beliefs that affect the behavior of the individuals in an organization.

Personnel Control: Personnel control can be defined as the attempts of the management and other stakeholders within the organization to influence the behavior and activities of the marketing personnel to achieve the desired results.

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Sales Analysis: Sales analysis is used for analyzing and monitoring the sales efforts of the company.

Strategic Marketing Audit: Strategic marketing audit is one of the most useful tools in strategic evaluation and control is the strategic marketing audit. It enables a company to define the present market situation, forecast the future situation, and to analyze the organization's marketing performance and potential.

22.9 Self-Assessment Test

1. Define a marketing plan. Explain the strategic issues with regard to the marketing plans.
2. Describe the prerequisites for effective implementation of marketing strategy. State the barriers to marketing strategy implementation.
3. Describe the process of strategic evaluation and control.
4. Explain the concept of strategic marketing audit. Describe different types of control.

22.10 Suggested Readings/Reference Material

1. Crawford and DeBenedetto. Irwin, "New Products Management", 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.

22.11 Answers to Check Your Progress Questions

1. (b) Formalized marketing planning process

Some of the benefits of having a formalized marketing planning process are:

- It results in improved communication among employees of the organization.
- It enhances coordination among employees whose activities are interrelated.
- It allows companies to anticipate developments over a period and the extent of preparation to meet them.

It helps in reducing conflicts among employees.

2. (b) Corporate planning system

Marketing planning should be properly integrated with the corporate planning system to be successful.

3. (d) Only a and b

The implementation of the marketing strategy has two important considerations, i.e. the structure of the organization and the people involved in the implementation process.

4. (d) Instructing

The implementation aspect of the marketing strategy is very important. There are four skills that are prerequisites for effective implementation of the marketing strategy. These are coordinating, assigning, examining, and organizing. Hence, option 'd' Instructing is not an important aspect.

5. (d) Loosely defined budget and timelines

While all other options stated support effective implementation of marketing strategy, loosely defined budget and timelines.

6. (b) Marketing functional unit

There are barriers to implementing the marketing strategy that arise from the marketing functional unit. The marketing functional unit is involved in activities such as selling, promoting and distributing.

7. (b) Measure the performance of the organization

The process of strategic evaluation and control enables the management to measure the performance of the organization

8. (d) Strategic marketing audit

The strategic marketing audit is used as a device for communication, as a tool for analysis, as a supportive tool in decision-making and to develop a policy framework.

9. (c) Profitability of a business segment

Return on investment (ROI) is used to measure the profitability of a business division or segment.

10. (a) Marketing Performance

The criteria commonly used for assessing marketing performance are sales, revenues, market share and customer satisfaction.

Unit 23

Learning in Marketing Organization

Structure

- 23.1 Introduction
- 23.2 Objectives
- 23.3 Learning Process about Markets
- 23.4 The Learning Organization
- 23.5 Sources of Information and its Analysis
- 23.6 Marketing Information System
- 23.7 Marketing Research Information
- 23.8 Computerized Information Systems
- 23.9 Summary
- 23.10 Glossary
- 23.11 Self-Assessment Test
- 23.12 Suggested Readings/Reference Material
- 23.13 Answers to Check Your Progress Questions

“An organization’s ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.”

- Jack Welch

23.1 Introduction

As rightly quoted by Jack Welch, for organizations learning is an important source of competitive advantage. Learning marketing organizations learn new processes, methods, techniques from markets, competitors, suppliers, customers and other sources. This knowledge is disseminated, shared, assimilated and interpreted through a systematic process and the insights gained in the process enables them to take informed decisions swiftly to confront problems and cash in on opportunities.

The previous unit discussed the strategic issues with regard to marketing plans, prerequisites for effective implementation of marketing strategy, barriers to implementation of marketing strategy, process of strategic evaluation and control, the concept of strategic marketing audit and different types of control.

This unit will discuss the learning process of an organization about the markets defining a learning organization, explains the types of organizational learning, different sources of information, its analysis, purpose of marketing information

systems and its elements, activities involved in gathering marketing research information, types of computerized information systems used in a marketing organization.

23.2 Objectives

After reading this unit, you should be able to:

- Elucidate the process of learning about the markets.
- Define a learning organization and discuss the types of organizational learning.
- Discuss various sources of information and understand how they are analyzed.
- Define a marketing information system, discuss its purpose, elements, benefits, and problems.
- Understand the activities involved in gathering marketing research information.
- Discuss various types of computerized information systems.

23.3 Learning Process about Markets

Some companies lose a significant market share because they lack information about the markets. They are slow in responding to the changes in the market or not prepared to exploit the market opportunities. Consequently, they lack the ability to anticipate the potential opportunities in the market and hence are forced to be reactive to the changes in the market.

Market Driven Organizations: Market-driven organizations continuously sense the changes in the markets. Such organizations have a greater ability to effectively anticipate the reactions of the customers to the market activities. In a market driven organization, every employee, i.e. from the front-line sales personnel to the CEO, focuses on identifying and exploiting the potential opportunities in the market.

Key Aspects of Market Driven Organizations:

Dynamic Markets: It is difficult to stay constantly informed about the changes in dynamic markets. Since markets change constantly, companies that monitor and understand such changes have an advantage in ensuring the future profitability of their businesses. Such companies also learn to communicate with the customers effectively and efficiently.

Information Technology: The information technology leap has made learning about the markets easier because of the availability of a number of sources of information like the internet, marketing research software, etc.

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Sequence of Organizational Learning Activities: Generally, most organizations follow the same sequence of activities for learning, i.e. collect, communicate, and interpret the information. Market-driven organizations differ in the way in which they collect and use the information. A market-driven organization practices collective learning.

Collective Learning: Collective learning is not merely a cumulative result of the individual efforts. It is a practice that needs to be embedded in the systems and the structure of the organization. It involves accepting or rejecting the information, developing a common thinking for interpreting the information and simplifying the assumptions about how the market will change on the basis of the information.

Barriers: There can be barriers in the learning process due to unavailability of information, improper distribution of the information, etc. The organizations should identify such barriers in their learning processes and try to overcome them.

Approaches to Learning Process in a Market-Driven Organization

Learning about markets is a continuous process which is embedded in all organizational decisions.

The learning process in a market-driven organization is characterized by an open approach to learning, the organization's information network, information evaluation and interpretation and information storage and right knowledge of markets as given below:

23.3.1 Open Approach to Learning

A learning organization is open to the trends and events that provide potential opportunities in the market. In such organizations, the service personnel do not get upset due to complaints from the customers. They consider these complaints as opportunities to identify the areas in which the services can be improved.

Here all the people in the organization are open to information emerging from various sources like from customers, suppliers, distributors and so on, scan such information without prejudice and identify the potential business opportunities.

Benefits of the Open Approach: The benefits of the open approach to learning are discussed here:

Scanning

The management of a company has access to various sources of information like market research reports and industry reports. This may at times give them the impression that they have access to a great amount of information. However, an open approach to learning in an organization helps to collect information from every possible source including the front line sales personnel.

Such an organization recognizes that these employees face the complaints or requests of the customers directly and have knowledge about the competitors' moves. These employees are encouraged to communicate such information to the management regularly.

Decision-making

In market-driven organizations, an open approach to learning aids in decision-making. Learning continuously about the markets enables a firm to have an in-depth understanding of the customers, competitors, etc. Such knowledge enables a firm to anticipate changes and ensures proper decision-making.

Sensing customer needs

In market-driven organizations, all the employees are focused on sensing the needs of the customer.

Key aspects of sensing customer needs are:

- *Digital Savvy Modern Indian Consumers:* These consumers prefer online shopping to traditional shopping because of the following benefits: Hassle free and comfortable shopping, lower prices, greater variety, shipping options and convenience of receiving goods at door steps and secure payment options. They became very comfortable with online order placements and getting the delivery at their door steps. With enhanced online payment options, selling online has become the order of the day.
- *E-Grocers:* As the internet connectivity through smart phones also has a deep penetration in the Indian markets, the marketer sees a lot of potential for e-grocery stores. Since expenditure on groceries is the major share of wallet for any family, it is easy and profitable for the e-tailers to reach the consumer on the digital platform. The e-grocers set up the mechanism of taking orders over the phone, which can also be accepted as another business model.

Example

Amazon Fresh and Pantry, Grofers (now Blinkit), JioMart, BigBasket, and Country Delight are among the major online grocery retailers, while Nature's Basket, DMart, Easy Day, and Milk Basket are among the emerging retailers. Out of these companies, BigBasket and Grofers are the leading players in India's online grocery market. These players are anticipated to maintain their dominance in the market through 2022¹⁴.

Source: ICFAI Research Center

Benchmarking

Most organizations adopt benchmarking practices for measuring their performance against their competitors. However, benchmarking against the

¹⁴ <https://www.oneworldnews.com/e-grocers-are-the-new-kirane-ki-dukan/> accessed on 19.3.22

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competitor cannot result in learning about the markets. A company can at the most be successful in comparing certain sales figures. This benchmarking does not focus attention on key areas.

The open approach to learning, on the other hand, enables an organization to benchmark itself creatively. The market driven firms go beyond the obvious comparison with the competitors and study the attitudes, values and management processes of firms in different industries. This type of benchmarking provides scope for improving the functions within an organization.

Experimenting on a Constant Basis

The open approach to learning in a market driven organization results in experimenting on a constant basis. It helps in adopting the changes if they appear to improve performance or reject them if they don't. The experimentation results in identifying new ways of improving the products and minimizing defects.

23.3.2 Organization's Information Network

The constant access to information through an organization-wide distribution network is termed as an organization's information network. A well-designed information and distribution network enables proper diffusion of knowledge throughout the organization. A properly distributed information network ensures that information is present for the right person at the right time.

Some organizations have information collection systems in place, but lack a proper network for disseminating this information. On the other hand, some others have very good distribution networks but do not have proper information collection systems. Therefore, an organization should take proper care to develop both information collection and distribution networks properly.

A market-driven organization does not have a hierarchical structure in the flow of information. In such an organization, information is widely distributed and its value is mutually appreciated and used synergistically wherever possible. Information diffusion is a very important aspect for an organization, while learning about the markets.

23.3.3 Information Evaluation and Interpretation

In order to use the information, an organization has to classify, sort and analyze the information into patterns, which are logical and are in an easy-to-use format. However, sometimes the perception of managers about the information may result in lack of foresight in an organization and can even influence the organizational activities and decisions. Generally, the organizations focus on segmenting organizational activities based on functional areas i.e. marketing, manufacturing, operations and so on.

This results in each functional unit working in isolation from others. Such an environment results in the different functional units interpreting the information differently and this needs to be avoided. Finally, the organizations should take care to avoid taking decisions or actions based on incomplete or distorted perceptions.

23.3.4 Information Storage

After the collection, distribution and analysis of information, it has to be stored in a reliable and easily retrievable memory. The absence of a collective and retrievable memory will defeat the basic purpose of a learning organization. An organization that has no proper mechanism to help it remember past failures is bound to repeat its mistakes again.

Types of Mechanisms:

Memory Mechanisms: The memory mechanisms are needed to ensure that the useful lessons are captured and preserved in an easy-to-retrieve format. The most common memory mechanisms are organizational policies and procedures. The policies and procedures are developed based on the experiences and learning of the organization.

Technological Mechanisms: IT is being increasingly used to create integrated databases, which have expert systems (computer programs developed on Artificial Intelligence) and decision calculus models, for enriching information storage mechanisms. However, these technological mechanisms should have proper organizational support if the learning has to be successfully implemented.

23.3.5 Right Knowledge of the Markets

Some organizations fail to tap the potential of a market, as they lack the ability to garner the right kind of knowledge about the markets. The main aim of learning about the markets is to enable the managers anticipate the opportunities from time to time and respond effectively to the competitors. It is not enough for an organization to describe the market with precision; it should be able to use the knowledge to strengthen its position in the market when compared to the competitors.

The managers must use the market information to retain or attract customers and fight competition. The success of the learning process depends on the quality of information collected from the open approach to learning, the information evaluation and interpretation and the availability of market information. The need for learning about markets generally arises from the large and unexplained gaps in performance, unanticipated moves by the competitors and identification of the opportunities missed.

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Overcoming Problems in the Learning Process: The organizations seeking to overcome the problems in the learning process have to remember the following:

- Learning happens whenever an employee comes into contact with the customer.
- The thought process of the managers influences the interpretation of the situation and how they act on the collective knowledge. The effectiveness of the managers' actions depends upon their assumptions about the markets and the relationships between the actions and customers are shared by all the people involved in taking the decision.
- Learning also involves unlearning obsolete market knowledge. The appropriateness of the past actions can reinforce the belief of present success and result in the rejection of new ideas and learning. Therefore, learning should also involve unlearning of outdated knowledge.

Key Aspects to become a Learning Organization: Some important aspects that an organization can look at to become a learning organization are given here:

Constant Education

An organization should identify the areas in which it is weak in the learning process. Well-educated organizations realize the importance of knowledge about practices outside their own industry to design new approaches for improving organizational learning.

Analyzing the Learning Process

Analyzing the learning process enables a business to identify ways to enhance its learning processes. The analyzing of the learning processes involves identifying the sequence of activities while stating the starting and ending points of the organizational learning clearly. However, analyzing the learning processes is difficult because market learning is a multi-dimensional activity and learning does not arise from a single source or result from a specific activity.

While analyzing the learning process, the management of an organization should answer questions like: 'From where does the customer and competitor information enter the organization?'; 'How is the information provided?'; 'How is the information stored, retrieved and distributed?'; 'What are the barriers to storage and retrieval?' etc. The answers to these questions help in analyzing the organizational learning process.

Use of Technology

Information technology can be used to help an organization effectively and efficiently act on the available information. The tools, technologies and methodologies enable effective knowledge transfer. The use of technology makes the collection of data quicker and easier than before. It also makes the task of interpreting the information easier. Technology allows an organization to communicate information effectively within various functional units.

Value

The learning organization should recognize the need for a continuous inflow of market information. An organization should consider the extent to which the collective learning is used in decision-making, etc. The value of market learning can only be realized when it helps in making quality decisions.

Check Your Progress - 1

1. Which of the following statements relating to collective information is not valid?
 - a. Is the cumulative result of the individual efforts
 - b. Is a practice that needs to be embedded in the systems and the structure of the organization
 - c. Involves accepting or rejecting the information
 - d. The individual manager's capability and skills in information gathering leads to rich qualitative and quantitative collective information
 - e. Developing a common thinking for interpreting the information
2. Which of the following is not a step that can help an organization to become a learning organization?
 - a. Keeping obsolete market information
 - b. Constant education
 - c. Analyzing the learning process
 - d. Use of technology
 - e. Unleash the expertise of experts and reward expertise

23.4 The Learning Organization

Definition: In 1990, Peter Senge (Senge) in his book the 'The Fifth Discipline' introduced and popularized the concept of a learning organization. According to Senge, 'In learning organizations, people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together'.

Key Aspects of a Learning Organization:

Learning at Every Level: The underlying idea of the learning organization is that only those organizations which are flexible, adaptive and productive will succeed in situations of competition and change. For this purpose, organizations need to tap the potential and commitment of the employees at all levels. A learning organization essentially focuses on learning at every level. It is market-oriented.

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Market-Oriented Organization: A market-oriented organization focuses on continuously collecting information about the requirements of the customers and the competitors' abilities. Such an organization uses this information for providing superior value to the customer. Market orientation is the starting point for organizational learning.

Market Orientation Combined with an Entrepreneurial Drive: Market orientation combined with an entrepreneurial drive lays a strong foundation for organizational learning. Technology might have changed the way learning is delivered but it has not been able to change the perception that learning is a behavioral outcome.

Changes in Society: According to Senge, a learning organization reflects the changes a society is going through. The changes are reflected in the evolution of the society from an industrial-oriented one to a knowledge-oriented one.

Knowledge Workers (Professionals): A learning organization encourages the employees to be open and receptive to new things and willing to adapt to continual changes within the business environment. A learning organization has to do away with the internal competition among the employees and move toward cooperation, collaboration and sharing. In a learning organization, learning is purposeful and takes place at both the individual and the organizational levels.

The concept of a learning organization is based on the following statements:

- Learning is a natural activity like breathing and therefore, its importance has to be identified.
- Learning should be part of the organizational culture and values.
- Continuous learning enables constant innovation and continuous improvement in the performance of an organization.

23.4.1 Types of Organizational Learning

In order to be effective, an organization should support the development of knowledge of its employees. Organizational learning is the development of new knowledge or gaining new insights. These insights or knowledge enables the organization to enhance its performance. Any business operating in a volatile or competitive market environment should be involved in organizational learning.

In the 1970s, Chris Argyis and Donald Schon developed the concepts of single loop and double loop learning.

- *Single Loop Learning:* When a problem occurs and is solved in a manner that allows an individual or organization to carry on with the present policies and procedures and to achieve the present objectives, it is a case of single loop learning.
- *Double Loop Learning:* On the other hand, when there is a problem and it requires changes or modifications in the individual or organizational beliefs, policies, norms, etc., it is called double loop learning.

There are two main types of organizational learning. They are as given below:

Learning by Adapting

Learning by adapting is considered as *single loop learning*. Learning by adapting is the most common form of learning. It occurs within a set of recognized and unrecognized constraints, i.e., boundaries of learning, which reflect the assumptions of the organization about itself and its environment. This type of learning is usually sequential, incremental and is focused on issues or opportunities that are within the scope of the organization's activities.

Learning by Questioning

Generative learning is considered as *double loop learning*. Generative learning occurs when an organization initiates the learning process and is willing to question long-held assumptions about the customer, its own capabilities or strategies.

It involves developing a new perspective about the market environment. The new perspective is developed based on an understanding of the systems and relationships, which underlie the key issues and events. This perspective forces an organization to focus on the relationships and the dynamic processes of change rather than focusing on the causes and effects of the events.

23.4.2 Organizational Learning Process

The process of organizational learning has three main stages, namely acquisition of information, distribution of information and the common interpretation of information. Each of these stages is discussed here:

Acquiring Information

The first stage in the organization learning process is the acquisition of information. Information can be acquired from direct experience, the experience of others, or from the previous experiences of the organization, i.e. organizational memory.

Types: Information acquisition can be of two types as given below:

- *Exploitation:* Exploitation involves acquiring information from the experiences of others. Exploration involves acquiring information through one's own effort. An organization must not rely too much on either exploitation or exploration. Too much dependence on exploitation can give rise to generative learning.
- *Exploration:* On the other hand, too much dependence on exploration for information can be expensive and may also result in the identification of under-developed concepts and ideas.

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Some of the common practices of learning from others are benchmarking and forming strategic alliances and joint ventures. The management of an organization should identify various internal and external sources for acquiring information. A well-defined learning process should also focus on the storage of the acquired information. The important information should be codified and stored in the information systems in the form of white papers, operating procedures, organizational routines, etc.

Distributing Information

The second stage in the organizational learning process is distributing the information. The learning of an individual is different from that of an organization. Unlike the information from individual learning, information from organizational learning is distributed throughout the organization.

The value of organizational learning increases only when the information is effectively distributed. The effective distribution of information helps the employees to take quality decisions and to execute them efficiently. As a result, the organizations encourage the employees to actively collect and share information.

Common Interpretation of Information

The last stage in organizational learning is the common interpretation of information. This implies that there should be a consensus among the members of the learning organization about the meaning of the information. For learning to occur within an organization, there must be a common interpretation based on common assumptions.

If differences arise in the common interpretations, then the underlying assumptions within the organization will have to be questioned. The information collected should be analyzed based on the shared interpretations of the organization.

Influence of Learning on Organizational Behavior: Organizational learning can have a major effect on the performance of an organization. The learning can influence organizational behavior in three ways as given below:

- *Direct Usage of Knowledge:* The first influence is basically action-oriented and involves the direct use of knowledge in problem solving.
- *Direct-Indirect Usage of Knowledge:* The second influence is knowledge enhancing and involves the use of knowledge in developing perspectives on managerial problems. This, however, may not directly change the organizational behavior.
- *Effects on Behavioral Change:* The third influence is effective use and involves the use of knowledge that brings about a change in the organizational behavior.

Organizational Learning for Attaining Competitive Advantage

Businesses in the competitive environment are characterized by constant change. Only those businesses that are able to identify and adapt to the changes quickly are likely to succeed in the competitive environment. The ability of an organization to learn about the changes in the market faster than its competitors can give it a competitive advantage.

Reasons for Importance of Organizational Learning: The organizational learning is important because of the following reasons:

- The increasing changes in the market and the technological innovations.
- The need for anticipating the moves of the competitors or market trends.
- For providing a competitive advantage for a company, as it is difficult for a competitor to imitate the learning process.

Benefits of Learning to an Organization: The learning provides the following five benefits to an organization:

- First, learning enables the organization to anticipate opportunities and threats, thereby reducing the need for it to react to sudden changes in the market.
- Second, the close relationships that the learning organizations share with their customers, suppliers, etc., ensure that mutual understanding exists between them in every situation.
- Third, the flexibility of the learning organization makes it easier to adapt to any kind of situation. This means that the organization can restructure itself quickly and allocate resources dynamically to deal with an emerging opportunity or threat.
- Fourth, the learning of an organization enables the employees of the company to identify and satisfy customer needs in an effective manner. This learning results in the creation of superior customer value.
- Fifth, the organizational learning can help to identify the changes or potential opportunities in a market.

Characteristics of Learning Organization

The characteristics of a learning organization can be identified based on its organizational culture, capabilities and organizational climate.

Organizational Culture

Components of Organizational Culture: There are two components of organizational culture, which are as given below:

Market focus: Market focus lays an effective foundation for a learning organization. A market-oriented organization focuses on providing superior value

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to the customers and creating a profitable relationship with them, taking into consideration the interests of key stakeholders. A market-oriented culture supports the value of information about the markets and the necessity of coordinated actions organization-wide, which are aimed at creating superior value to the customer.

For anticipating customer needs, the emphasis in a market-oriented organization is on collecting information about customers and competitors. This information about the customers allows the company to innovate products and services. As a result, market orientation allows an organization to react quickly to the changes in the market and in turn supports the learning of the organization.

Entrepreneurship: A culture that supports innovation and entrepreneurship provides the appropriate environment for learning from exploration and experimentation. Entrepreneurship is associated with acquiring knowledge through exploration, challenging the traditional assumptions and developing new approaches to foster learning in the organization. Successful innovation takes place when the marketer identifies the gap between the market need and the existing services and provides the required services.

Example

Google¹⁵ is the premier example of organizational culture where entrepreneurship is supported and they have expanded their operations within the existing company. As a result, they have revolutionized the business and acquired over 180 companies in the past two decades. It proves they are fully aware of techniques for making new companies out of present ventures.

Source: ICFAI Research Center

Organizational Climate

Organizational climate, on the other hand, describes how the organization operates, the structures and processes that enable the achievement of the desired behaviors.

Components of Organizational Climate: There are three components of organizational climate that are important for a learning organization, which are as given below:

Supportive leadership: The role of the leader in an organization is to develop a vision for the organization. A well-crafted organizational vision communicates the expected behavior of the employees and guides them toward the channel through which knowledge has to be pursued. Organizational learning should be aligned with the corporate vision and should be purposeful. A supportive leadership encourages the employees to learn more.

¹⁵ <https://101entrepreneurship.org/corporate-entrepreneurship/> accessed on 24.2.22

Flexible structure: The organization should have a flexible structure which is decentralized, with fluid responsibilities and extensive communication processes. For effective sharing of information in a learning organization, such a structure plays a vital role. The absence of structural and systematic constraints allows the easy flow of information.

An important dimension to the flexible structure is the openness to external learning partners. Organizations with flexible structures learn from the customers, distributors, suppliers and from various other sources. These learning partners provide mutually beneficial information.

Planning with a decentralized approach: In a learning organization, planning is guided by corporate vision and implemented by task-oriented planning teams. The corporate vision is based on an understanding of the market and is constantly communicated throughout the organization. The vision enables an organization to learn and adapt.

Check Your Progress - 2

3. Which type of learning is usually sequential, incremental and is focused on issues or opportunities that are within the scope of the organization's activities?
 - a. Learning by questioning
 - b. Learning by adapting
 - c. Learning from others
 - d. Learning from superiors
 - e. Learning from experience
 4. Which of the following is the last step in the process of organizational learning?
 - a. Common interpretation of information
 - b. Acquiring information
 - c. Distributing information
 - d. Showing commitment to learning
 - e. Assessment of learning
 5. Which of the following is not a characteristic of learning organization?
 - a. Market focus
 - b. Flexible structure
 - c. Supportive leadership
 - d. Planning with a centralized approach
 - e. Empowering and enabling employees to learn
-

23.5 Sources of Information and its Analysis

The main task in learning about markets is deciding upon the information requirements. An organization must plan well for the proper collection and analysis of information. It is important for an organization to consider the benefits derived from the information collected on the basis of the costs incurred in collecting it.

Generally, the information collected is categorized into two types:

- The information supplied by the internal and external sources like the reports about the market share, sales and customer satisfaction which are supplied by various internal and external sources.
- The information collected for a specific purpose like information collected for launching a new product in the market.

There are various sources that provide marketing information of which some are marketing research, information systems and competitor intelligence systems as discussed below.

23.5.1 Marketing Research

Marketing research studies involve the customized collection and analysis of information to deal with a specific problem or situation. The main aim of marketing research is to provide information about the market and its reaction to various products, price and promotion activities. The role information plays in the marketing research process is evident.

Definitions:

- According to the American Marketing Association (AMA), marketing research is “The systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services”.
- The marketing research process consists of defining the marketing problem, identifying the sources of information, identifying the techniques for collecting information, collecting data, analyzing data, and communicating the results.

There are two main sources of information for marketing research, i.e., primary and secondary sources.

Primary Sources

Primary sources involve the information being collected through ad hoc and continuous research. However, it is time-consuming and costly to collect information through primary sources.

Secondary Sources

Secondary sources involve information that previously exists like company records, industry reports, government statistics, newspaper and journal articles,

etc. It also includes the market research agency reports. It is cheaper and saves on time to get information from these sources.

Types of Marketing Research Studies

Some of the common types of marketing research studies are discussed here:

Customer satisfaction: This study helps to measure the satisfaction level of the customers and find out what they want. It also enables measurement of the level of service provided by a company with respect to its competitors and helps to enhance customer service.

Home use tests: In this study, the consumers are first asked to use the product at home and then asked about their experience with the product.

Omni Trak: This study involves door-to-door interviews, which are conducted on a periodic basis. Generally, this study is conducted on a quarterly or half-yearly basis. This involves studies relating to brand awareness, advertising recall, buying behavior of the consumer and brand image.

Advertising and brand tracking: This study measures the knowledge of the consumers about an advertising campaign or a particular brand. It is usually a follow-up program to measure the effectiveness of an advertising campaign.

Attitude and usage studies: This study identifies the attitudes, buying habits and usage of a product by the consumer.

Brand image studies: This study measures the perception consumers have about a specific brand.

Concept testing: This study involves analyzing whether the consumers will accept or reject a specific product. It is usually performed when a new product is being introduced.

Package attribute testing: This study involves analyzing the acceptance or consumer preference about the packaging of a product (color, label, text).

Mystery shopping: This study enables the companies to measure the effectiveness of the service their employees are providing to the customers. It ensures that the employees meet the company standards and are providing service to the customers with a positive attitude.

Exhibit 23.1 illustrates the marketing research studies conducted by ACSI.

Exhibit 23.1: ACSI Customer Satisfaction Studies

The American Customer Satisfaction Index (ACSI) is the only national cross-industry measure of customer satisfaction in the United States. The Index measures the satisfaction of U.S. household consumers with the quality of products and services offered by both foreign and domestic firms with significant share in the U.S. markets.

Contd....

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Some of the ACSI studies are:

- ***Automobile Study 2020-2021:*** The ACSI Automobile Study 2020-2021 was based on the interviews with 4,888 customers, chosen at random and contacted via email between July 6, 2020 and June 28, 2021.
 - Under *Automobiles & Light Vehicles category*, Honda bagged the top position with a score of 82 which was above the industry score of 78.
 - Under the *Mass-Market category*, Honda also bagged the top position with a score of 82.
 - Under the *Luxury category*, BMW bagged the top position with a score of 81.
- ***Smartphone Study 2020-2021:*** The top six positions were bagged by Samsung phones, Galaxy Note10+, Galaxy S10+, Galaxy S20+, Galaxy S20, Galaxy A20 and Galaxy S10 respectively with scores of 85, 85, 85, 84, 83 and 82 respectively. Then followed by Apple's iPhone 11 pro in 7th position with a score of 82.
- ***Retail and Consumer Study 2020-2021:*** The study was done under the following categories:
 - Under the *Department & Discount Stores category*, Costco bagged the top position with a score of 81.
 - Under *Specialty Retail Stores category*, L Brands bagged the top position with a score of 81, Hobby Lobby was in second with 80 score and Nike is in the third position with 80 score.
 - Under the *Health & Personal Care Stores category*, CVS, Kroger, Walgreens and Walmart are in 2nd to 5th positions respectively. Others have bagged the rank 1 in this category.
 - Under *Supermarkets category*, Trader Joe's & Costco are in top two positions respectively.
 - Under *Internet Retail category*, Nordstrom, Costco, Etsy, Newegg, Amazon & HP Store were in top 6 positions respectively.

Sources: i) <https://www.theacsi.org/> accessed on 24.2.22

ii) <https://www.theacsi.org/news-and-resources/customer-satisfaction-reports/reports-2021/acsi-automobile-study-2020-2021> accessed on 24.2.22

iii) <https://www.theacsi.org/acsi-benchmarks/benchmarks-by-brand/benchmarks-for-smartphones> accessed on 24.2.22

iv) <https://www.theacsi.org/news-and-resources/customer-satisfaction-reports/reports-2021/acsi-retail-and-consumer-shipping-report-2020-2021> accessed on 24.2.22

Activity 23.1

TSW Electricals Ltd., is an electric geyser company in India. The company is one of the leading companies in providing geysers to consumers. Of late, the company noticed that there is a growing trend of instant geysers in the market. Though several players had already established instant geysers in the market, the company had still not entered the market. Thus the engineers at the company made a prototype of an instant geyser.

The top management decided to launch its instant geyser prototypes in some selected cities in India. The company decided to foray the instant geyser segment based on the response to the product. Identify the type of marketing research study adopted by the company. Do you think this study would help the company to take a correct decision? Why (not)? Suggest and discuss other marketing research studies that could help the company in launching its instant geysers.

Answer:

23.5.2 Information Systems

The huge amount of information and information processing requirements led to the need for information systems in recent times. Information systems allow dynamic communication between the personnel in various departments of an organization.

Some of the common types of information systems are discussed here:

Transactional Processing System (TPS)

The TPS represents the use of information systems at the most basic level. It is used for recording basic transactions like order entry, order processing, invoicing, etc. It generally provides standard reports on a periodic basis. TPS provides the managers with the records of past performance.

Management Information Systems (MIS)

The MIS is used to transform the collection of information into reports and processes. These reports support the managers in various managerial functions like order processing, invoicing, customer analysis and product performance.

Decision Support Systems (DSS)

The DSS provides computerized support for managers to make effective decisions. A DSS is more effective than an MIS.

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Expert Systems (ES)

Systems which help in solving problems and in decision-making and usually require human expertise are called expert systems. These systems collect information from knowledge warehouses and store them for use in relation to a given problem or situation.

23.5.3 Competitor Intelligence System

Definition: According to Michael Porter, the competitor intelligence system is defined as ‘a systematic process of collecting, analyzing, and communicating competitor data within the organization’. It involves the collection of information from various sources like the sales force, industry reports, etc. routinely over a period. This information helps in forecasting the competitors’ activities.

The information systems can be designed to provide information about the competitors and the competitive market environment. This information can help the management in making effective strategic decisions. The competitor intelligence systems can help to monitor the activities of the competitors.

They also help the companies to identify potential competitors in the market. Some of the activities in the competitor intelligence systems include searching databases, conducting customer surveys and interviewing suppliers and distributors. The information requirements should be identified properly for designing a competitor intelligence system.

Check Your Progress - 3

6. Which of the following is the source of information from which the collection of data is time-consuming and costly?
 - a. Secondary source
 - b. Primary source
 - c. Syndicated source
 - d. Pilot survey
 - e. Focus group interview
7. Which of the following is a type of marketing research study that involves analyzing whether the consumers will accept or reject a specific product?
 - a. Attitude and usage studies
 - b. Mystery shopping
 - c. Home use tests
 - d. Concept testing
 - e. Product testing

8. Transactional Processing System (TPS) is not used for which of the following?
- Order entry
 - Order processing
 - Invoicing
 - Solving problems and decision-making
 - Checking accuracy of transactions
-

23.6 Marketing Information System

The technological innovations over the last century have led to many changes in the business environment, these innovations have intensified competition. For an organization's survival, information about the environment has become a vital requirement. The raw data obtained from the market cannot be used to take marketing decisions. It has to be processed, analyzed, and arranged in a manner that is easy to understand.

The MkIS is broader and uses more internal and external sources of information than marketing research does. In fact, the marketing research department is a part of the MkIS as a whole. MkIS also includes marketing planning, operations research, sales management, etc.

Definitions:

- The Marketing Information System (MkIS) is a tool for translating the raw information into an easily usable and understandable format.
- MkIS is also defined as 'an interacting structure of people, equipment, methods, and controls, which is designed to create an information flow that is capable of providing an acceptable base for management decisions in marketing'.
- MkIS is a continuous study about the marketing factors, which have an influence on the organization.

23.6.1 Purpose of Marketing Information Systems

In the present business environment, marketing information systems have become a necessity. The MkIS serves as a decision making tool. It captures the changes in the market as they occur and enhances the ability of the organization to act proactively. A well-structured MkIS prevents redundancy of information and ensures that the right information is available at the right time to the right person.

Some of the reasons for this are as follows:

- The increasing complexity and globalization of the business environments have led to the demand for more information and better performance of an organization.

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- Product life cycles have become shorter. This requires the management to formulate strategies to make profits within the short life span of the product.
- Companies that are rapidly growing need to have a huge amount of market information. In such companies, the information about the markets can be dispersed in many places and this can result in ineffective use of marketing information. In such organizations, the setting up of marketing information systems helps to effectively use the available information.
- Decisions need to be made at a rapid pace in the present business environment. For decisions to be quick and effective, information should be accurate and easily accessible. The marketing information systems enable an organization to take quick and effective decisions by providing accurate and up-to-date information that is easily accessible.

23.6.2 Elements of Marketing Information System

A successful marketing information system needs a nurturing environment in the organization. An organization should have a system that enables it to provide the information in a format that can be used for decision-making by the management.

Example

Amazon¹⁶ uses marketing information gathered from customers while they browse to build and fine-tune its recommendation engine. The more Amazon knows about them, the better it can predict what they want to buy. And, once the retailer knows what customers might want, it can streamline the process of persuading them to buy it.

Source: ICFAI Research Center

Designing of MkIS:

- An MkIS is a system designed to handle the marketing-related information of an organization. The MkIS must be designed in such a way that it enables the electronic handling of information, the availability of user-friendly hardware and software for efficient and effective handling of information.
- The system should also support the storage of new information along with the previously collected information. In addition, an information system should be designed to be flexible and easily adaptable to the constantly changing requirements of the organization.

Use of MkIS at Various Organizational Levels: An MkIS can be further defined as a system for handling marketing related information. It is used differently at different organizational levels as explained below:

- *Top-Level Management:* The top-level management uses the MkIS for taking strategic decisions. At this level, the management uses the MkIS for market

¹⁶ <https://bernardmarr.com/amazon-using-big-data-to-understand-customers/> accessed on 24.2.22

and external environment related information and information for analytical support to help them in making strategic decisions.

- *Middle Level Management:* The middle level management uses the MkIS to know functional information like price, product, promotion, distribution, finance, and human resources.
- *Lower Level Management:* The lower level management uses the MkIS for operational information such as customer handling, etc. The use of MkIS in an organization benefits even its customers.

Elements of MkIS: The main elements of MkIS are as given below:

- *Inputs:* The information required to generate the required results are the inputs.
- *Outputs:* The output consists of the information used by the management for taking decisions.
- *Processor:* The processor is the information system (i.e. MkIS) itself. The MkIS also allows for feedback and control of the information.

Benefits of Marketing Information Systems

Some of the benefits of an effective marketing information system are given here:

- It provides the information required by the company within the specified time constraints.
- It enables a large and decentralized company to use the information dispersed at various locations by integrating them into a well-defined information system.
- It provides in-depth market information.
- It enables the people to access the information they want directly, without having to indulge in time-consuming research.
- It helps in identifying emerging trends quickly.
- It allows a company to have better control over its marketing plans.
- It prevents important information from being overlooked.
- It helps in effective use of information.

Problems in Marketing Information Systems

Though MkIS has many benefits, it has some organizational problems that need to be dealt with. Some of the problems in MkIS are:

Lack of integration: Marketing is not an isolated activity. It is a part of the management activity. Likewise, MkIS is not an isolated system. It is a part of the MIS as a whole. Some other areas in the MIS are finance, operations, personnel, etc. Therefore, too much emphasis on any one functional area is not advisable.

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A manager must realize the fact that the success of an organization as a whole depends upon the success of each of these functional areas. Integration between various systems becomes even more important when the output of one system is the input for another system. All the individual systems must function together to improve the performance of the organization.

Requirement of new skills: The MkIS requires the creation of new job functions and new skills in an organization. This may result in changes in the work of the organization. The traditional way of doing things may be replaced by new ways due to the availability of additional insights, development of new perspectives, etc. The new job functions and the requirement of new skills may create confusion and conflicts in the work environment of the organization.

Relationship between the designers and users of the system: The lack of proper communication between the systems' designers and users at the designing stage can result in gaps in the MkIS. It may create misunderstandings and a strain in the relationship between the system designers and the system users. Therefore, the key personnel from the marketing functional unit should be allowed to work with the designers even as the system is being designed.

Check Your Progress - 4

9. Which of the following statements regarding the Marketing Information System (MkIS) is incorrect?
 - a. The Marketing Information System (MkIS) is a tool for translating the raw information into an easily usable and understandable format
 - b. MkIS is an interacting structure of people, equipment, methods and controls, which is designed to create an information flow that is capable of providing an acceptable base for management decisions in marketing
 - c. MkIS is a continuous study about the production factors, which have any influence on the organization
 - d. MkIS also includes marketing planning, operations research, sales management etc.
 - e. MkIS is a tool that gives valuable feedback on the effectiveness of advertisements
 10. Which of the following is not a benefit of market information system?
 - a. Identifies emerging trends
 - b. Prevents important information from being overlooked
 - c. Provides in-depth market information
 - d. Information cannot be used effectively
 - e. It helps a company have better control over its marketing plans
-

23.7 Marketing Research Information

The information for marketing research is collected from internal and external sources. Marketing research can be defined as the systematic process of collecting, recording, processing and analyzing marketing information. The results of such research when interpreted help the managers to identify the opportunities and minimize risks while making decisions.

Activities in Obtaining Marketing Research Information:

Gathering existing information: The information system of a company affects the extent and ease with which the existing information can be gathered by the managers.

Standardized study groups: Marketing information is readily available from standardized information service groups like AC Nielsen. These groups can be government agencies, research firms, industry and trade organizations, etc.

The main advantage of the study groups is that the costs and efforts of the study are shared among many users. The services of the standardized study groups thus provide cost advantages to an organization. However, the information may not suit the exact needs of an organization.

Example

Kearney¹⁷ is a global research firm which provides standardized information services to its clients specifically according to their requirements. It also conducts research in general on various industries across various countries of the globe. It developed GRDI (Global Retail Development Index) for retail attractiveness of emerging markets like India.

Source: ICFAI Research Center

Specialized studies: The research conducted in response to a particular problem or situation is referred to as specialized study. The specialized studies can be conducted for testing a product concept, analyzing the brand image and brand recall, etc. The specialized studies can range from field surveys to telephonic interviews of the customers, who represent the sample market.

Key considerations for a manager to conduct marketing research:

Problem definition: The problem must be well defined for conducting research. The definition should mention what kind of information is required to solve the problem. Here, the marketing manager must ensure that he/she gives a clear picture of the problem on hand to the researcher.

¹⁷ <https://www.kearney.in/> accessed on 24.2.22

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Identifying the limitations: The research must also specify the limitations. It must specify the budget allocations and financial limitations.

Costs: The cost of the study is an important consideration for a manager. The factors that affect the cost of study are sample size selected, the type of study being conducted, and the mode through which information is being obtained.

23.8 Computerized Information Systems

There are many information systems within an organization. The aim of the information systems is to provide information. Computers are being used in taking decisions in various areas of management.

23.8.1 Management Information Systems

The electronic data processing systems have made it easier for managers to store and retrieve large amounts of information. The MIS has combined the computer-based information systems and managerial decision-making. The MIS provides the relevant information in a ready-to-use format that managers can use for effective decision-making.

Definition: The MIS can be defined as ‘a set of organized procedures, which provides information for a specific purpose.’

The MIS is dynamically defined by the managers, based on their level in the organization. It is believed that the MIS is used more at the middle and lower levels of management rather than at the top levels. This is because the top-level management does not need the information in as much detail as the MIS provides.

Information Requirements of Various Managerial Levels: They are broadly defined as follows:

- Top-level managers require information for strategic planning, which involves deciding what should be done.
- Middle-level managers require information for tactical planning, which involves deciding how plans should be implemented.
- Lower-level managers require information for operational planning, which involves the implementation of plans.

MIS can be used for both planning and controlling activities. The information requirements of the manager will also vary based on the detail of information required, time, orientation, etc.

23.8.2 Database Systems

The business environment is characterized by constant change. A business needs to keep track of these changes in the market in order to be successful in the long run. A business also needs to keep track of the information about the customers, suppliers, competitors, etc. This information can provide a competitive advantage to the company.

For instance, information about customers helps to provide effective and enhanced customer service. It helps the company to develop a long-term relationship with the customers, which can develop into a competitive advantage in the long run. The data collected can be stored in a data warehouse, a centralized storage system that collects information from various data sources and gives an integrated view of the business activities.

Database systems are a type of MIS and have the capabilities of the decision support system. Database systems are very important for companies that are involved in direct marketing because direct marketing requires information about customers. Collecting information each time may result in a waste of the organization's resources and efforts. The database systems support the storage of information and minimize the efforts and costs of an organization.

Example

Britain based retailer Marks & Spencer uses information generated from customer credit cards to better tailor its marketing efforts. It revamps its process for supplying products to stores after studying its customer database.

Source: ICAI Research Center

23.8.3 Decision Support Systems

The increasing complexity of the business environment has enhanced the importance of the decision-making process. Therefore, the need for tools and techniques in assisting the managers in effective decision-making is being increasingly felt. Decision Support Systems (DSS) can be used to assist managers in effective decision-making.

DSS is a computer-based interactive system designed to help in decision-making. It ensures that decisions are taken based on data and models. The aim of DSS is to improve and accelerate the processes by which management makes the decisions and communicates them. A DSS gives importance to increasing organizational effectiveness.

Definition: The basic concepts involved in DSS were first introduced by Scott Morton in the early 1970s. He introduced DSS under the name Management Decision System. According to Morton, the Management Decision System is '*an interactive computer-based system which helps decision makers use data and models and solve the unstructured problems*'.

Components of a DSS: The structure of a DSS has three main components: In order to take a decision, the minimum requirements for a system are the user interface, database and models.

- *User System Interface Subsystem:* The user system interface enables the communication/interaction between the user and the computer. This communication is possible through the keyboard, mouse, printer, etc.

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- *Database Management Subsystem:* The database management subsystem enables data to be stored. This helps to avoid time being wasted on data collection activities.
- *Model Base Management Subsystem:* The model base management subsystem provides the structural/semi-structural components for problem solving. Sometimes a manager can use his/her personal experience or intuition along with the models to arrive at a decision.

Marketing Decision Support System

Definition: Marketing is an activity that requires a system more effective than the DSS. The Marketing Decision Support System (MDSS), a term coined by John C. Little (Little) in 1979, fulfills the need for an effective DSS for marketing activity. According to Little, the '*marketing decision support system is a coordinated collection of data, models, analytical tools, and computing power by which an organization gathers information from the environment and makes decisions based on it*'.

Advantages of MDSS:

Ad-hoc Marketing Decisions: The MDSS focuses on improving the effectiveness of the marketing decisions. Marketing activities like forecasting of sales, new product launch, and marketing planning have many factors that influence them. In such situations, marketing decisions are often ad hoc or incessant events rather than occurring at regular intervals that need to be taken within a short span of time. MDSS provides accurate and timely information in such situations.

Changes in the Marketplace: The MDSS identifies the fact that strategy cannot be formulated in isolation from the market environment. The opportunities in the market may increase or decrease, the market may require to be segmented again, new competitors may have entered the market, etc. All such changes in the marketplace have an effect on the strategy. In such a situation, MDSS enables making effective decisions.

Quantitative Information & Analytical Models: Quantitative information provides the necessary support for intuitive decisions. Some of the complex situations that require effective marketing decisions are new product launch, forecasting sales, and marketing planning. MDSS provides support for various interdependent solutions. It provides analytical models for various situations.

Experience and Intuition: Marketing is an activity that depends to a large extent on behavioral aspects, uncertainty of the environment and the complexity of problems. It takes into consideration more social, cultural and psychological aspects than any other functional unit in an organization. Experience and intuition helps marketers to make better marketing decisions using MDSS.

Key Components of MDSS

Database: The database involves a collection of information from various sources like research reports and market studies. It also stores a collection of internal information pertaining to sales, pricing, and advertising. In addition, the database is constantly updated with the latest internal and external information. The information is organized into relevant units for easy analysis.

Display: The display provides the interface between the user and the database. This enables the personnel to access, update and utilize the information in the database.

Models: Models represent the relationships between the information as mathematical and computational representations. These models help a manager in analysis and decision-making.

Analytical capabilities: This involves the use of various techniques like regression analysis, factor analysis, time series analysis, etc. The selected information is analyzed based on these capabilities.

Activity 23.2

Catch Ltd., is a leading UK-based retailer. Considering the market potential of the growing retail market in India, the company made foray into India with a joint venture with India-based KST Group (KST). Though KST is not among the leading retailers, it has awareness about the local retail market in India. The top management of both the companies decided that they had to take important decisions such as new product launches, marketing planning and sales forecast. Assume that you are the manager of the company and suggest ways that would help the companies in taking key marketing decisions?

Answer:

23.9 Summary

- Learning about markets involves collecting, analyzing and interpreting the marketing information. Learning about markets is a continuous process and is characterized by an open approach to learning, the organization's information network, information evaluation and interpretation and information storage.
- There are two types of organizational learning, namely adaptive learning and generative learning.
- The organizational learning process consists of three main stages. They are: information acquisition, information distribution and shared interpretation.

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- The information about the markets can be collected from various sources like marketing research studies, information systems and competitor intelligence systems.
- Marketing Information System (MkIS) is defined as an interactive system consisting of people, equipment, methods and controls. This system is designed to provide accurate and timely information for taking effective marketing decisions.
- There are various sources of information for marketing research activities. Some of these are internal sources, standard information services and specialized studies.
- IT has resulted in the computerization of information systems as well. Some of the information systems include management information systems, database systems, decision support systems and marketing decision support systems.

23.10 Glossary

Competitor Intelligence System: According to Michael Porter, the competitor intelligence system is defined as a systematic process of collecting, analyzing, and communicating competitor data within the organization.

Management Information Systems (MIS): Management Information System (MIS) can be defined as a set of organized procedures, which provides information for a specific purpose.

Marketing Information System (MkIS): Marketing Information System (MkIS) is defined as an interacting structure of people, equipment, methods and controls, which is designed to create an information flow that is capable of providing an acceptable base for management decisions in marketing.

Marketing Research: Marketing research can be defined as the systematic process of collecting, recording, processing and analyzing marketing information.

Organization Climate: Organization climate, describes how the organization operates, the structures and processes that enable the achievement of the desired behaviors.

Organizational Culture: Organizational culture is defined by the deeply rooted set of values and beliefs, which influence the behavior of the individuals in the organization.

23.11 Self-Assessment Test

1. Explain the process of learning about the markets.
2. Define a learning organization. Explain various types of organizational learning.
3. Describe various sources of information for market research.
4. Define a marketing information system. Describe its purpose.

5. Explain the benefits and problems of a marketing information system.
6. Explain various activities involved in gathering marketing research information.
7. Briefly explain various types of computerized information systems.

23.12 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, “New Products Management”, 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, “Strategic Marketing”, 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, “Marketing Strategy”, 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, “Strategic Marketing Management”, “Strategic Marketing: Making Decisions for Strategic Advantages”, PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, “Strategic Marketing Management”, Cerebellum Press, 2018.

23.13 Answers to Check Your Progress Questions

1. (d) **The individual manager’s capability and skills in information gathering leads to rich qualitative and quantitative collective information**

Collective learning is not merely a cumulative result of the individual efforts. It is a practice that needs to be embedded in the systems and the structure of the organization. It involves accepting or rejecting the information, developing a common thinking for interpreting the information, and simplifying the assumptions about how the market will change on the basis of the information.

While all options state valid points on Collective Information, option ‘d’ is not valid. Collective information is not the outcome of an individual manager’s effort, it is the cumulative result of the individuals of the organization.

2. (a) **Keeping obsolete market information**

Some steps that an organization can take to become a learning organization are: constant education, analyzing the learning process, use of technology and value of market learning.

3. (b) **Learning by adapting**

Learning by adapting is a type of learning that is usually sequential, incremental, and is focused on issues or opportunities that are within the scope of the organization's activities.

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4. (a) Common interpretation of information

The process of organizational learning has three main stages, namely the acquisition of information, distribution of information and the common interpretation of information. Hence common interpretation of information is the last step in the process of organizational learning.

5. (d) Planning with a centralized approach

The characteristics of a learning organization are market focus, entrepreneurship, supportive leadership, flexible structure and planning with a decentralized approach. Hence option 'd' is correct.

6. (b) Primary source

Primary sources involve the information being collected through ad hoc and continuous research. However, it is time-consuming and costly to collect information through primary sources.

7. (d) Concept testing

Concept testing is a study that involves analyzing whether the consumers will accept or reject a new product that is being introduced.

8. (d) Solving problems and decision-making

The Transaction processing system is used for recording basic transactions like order entry, order processing, invoicing, etc. Hence option 'd' is correct.

9. (c) MkIS is a continuous study about the production factors, which have any influence on the organization

The Marketing Information System (MkIS) is a tool for translating the raw information into an easily usable and understandable format. MkIS is also defined as 'an interacting structure of people, equipment, methods, and controls, which is designed to create an information flow that is capable of providing an acceptable base for management decisions in marketing'. MkIS is a continuous study about the marketing factors, which have an influence on the organization. The MkIS is broader and uses more internal and external sources of information than marketing research does. In fact, the marketing research department is a part of the MkIS as a whole. MkIS also includes marketing planning, operations research, sales management, etc. Hence option 'c' is correct.

10. (d) Information cannot be used effectively

All options given, except option 'd' are benefits of MkIS. Option 'd' is an invalid statement on MkIS. Hence option 'd' is correct.

Strategic Marketing Management

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