

**SWP 7/91 MARKETING INVESTMENT ANALYSIS: THE CRITICAL
SUCCESS FACTORS FOR FINANCIALLY EVALUATING AND
EFFECTIVELY CONTROLLING MARKETING INVESTMENT
DECISIONS**

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**Marketing Investment Analysis: the critical success factors for financially evaluating and effectively
controlling marketing investment decisions**

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Most large and very many smaller companies are now very sophisticated in how they financially evaluate major investment decisions involving tangible fixed assets. This has been validated by numerous research studies (see for example Rayburn [1981]). However there has been much less detailed research into the way in which major marketing investment decisions are taken in such companies (Barwise, Marsh and Wensley [1989] looked at the role of finance in strategic decision making). This is despite the fact that, increasingly, the expenditure on marketing assets often considerably outweighs the comparable outlays on more tangible assets. The Marketing Accounting Research Centre (MARC) at Cranfield School of Management has, since its inception in 1983, been working with companies in this area and has also conducted surveys on related areas of accounting for marketing activities.

So far the evidence overwhelmingly indicates that companies are far less rigorous in their financial evaluations of long term marketing investment than they are for similar levels of expenditure involving other projects. Indeed in many companies there is no attempt to distinguish between short term and long term marketing expenditure in terms of the financial evaluation techniques employed, with all marketing activities being regarded as short term, i.e. current period, expenses in line with 'prudent' financial accounting conventions. This is particularly true in the critically important area of justifying the development and launch of new products. The initial phases (e.g. product research and development, market research, test marketing and even pre-launch marketing) are often allocated from a revenue budget and consequently may be controlled in the same way as normal, regular ongoing expenditure items. In such companies, a 'capital' investment project would only be raised when the decision to invest in 'real' fixed assets, such as a full-scale manufacturing facility, was reached.

Even in businesses which are far more rational and consistent in their financial evaluation procedures, MARC has regularly come across major flaws in the ways in which the evaluation techniques are implemented. This was once more evident in two recent marketing investment analyses carried out by

MARC on projects involving new products for a leading UK fast moving consumer goods group, which is at the forefront of companies in utilising quantitative techniques to plan and control marketing activities. These projects, which have been disguised for reasons of commercial confidentiality, have been used as the basis for this article. As a result of analysing these and other projects, MARC has identified seven critical success factors for financially evaluating and effectively controlling marketing investment decisions, and these factors are discussed in the practical context of these projects, while using other relevant case studies as additional illustrations.

Project 1: Segmentation in a Mature Market

The first project involved the company investing in a new product as an extension of an existing major product range. This existing range is based on an old, well established and well recognised core brand which is a major profit and cash generator for the group, although the market in which it is situated is now very mature. This market recently had been segmented by the actions of the competition in attempting to erode the market leader's share, and several launches of speciality products into tightly focussed market segments had been particularly successful in achieving this. The market leader's response was to launch its own speciality product in order to try to defend its overall market share, which was being marginally but continuously eroded, and at the same time to try to boost the size of the total market.

(Unfortunately MARC was only invited to conduct a post audit evaluation of this launch and hence our analysis was inevitably historic and static.)

The justification for the company's action, as discussed with MARC during the post-audit but not actually clearly specified and quantified in the original planning documentation, was that the company would be creating a new market segment which would bring in new consumers as well as retain existing consumers who were leaving the market. However, because no proper justification was made, any impact on the sales of the company's existing range of products as a consequence of launching this new product was not included in the evaluation, nor even apparently anticipated. In fact the actual results indicated that the new product "stole" a large proportion of its eventual market share from the existing range which had the

whether the reallocation of marketing resources away from the core brand was financially justified. It was originally felt by the company that this new range would be a short-lived 'fashion' type product and hence no full financial evaluation was considered to be necessary. However, such was the perceived appropriateness of the new product's values to today's 'green' consumer, the product has become a permanent addition to the range and has created its own product category. Even if the new product is truly temporary in nature, the required allocation of financial resources should still be properly evaluated and this must include the financial impact on existing products.

This less than rigorous attitude does not seem to exist very often, and certainly not for this company, when dealing with more tangible investments such as building a new manufacturing facility. Yet it is clearly foolish to produce output when it is not known whether there is a market for it. In MARC's experience, in cases where a project involves both tangible and intangible investment, once this tangible investment is justified, it is often wrongly assumed that the intangible marketing investment can also be assumed to be justified, although little financial evaluation is actually undertaken to verify this. In the other major case study used as the basis for this article this overall evaluation process was further complicated because the company did not have the technology available internally to enter the identified target market in the desired way and it had to contract out the packaging (i.e. a large part of the tangible investment) to an outside supplier for the launch period. The contracting out was done primarily to reduce the high perceived risk associated with the necessary investment in fixed assets to enable the new packaging format to be produced internally. This risk would remain until the product had proved itself in the marketplace. Thus steps were taken to reduce a risk associated with an investment in tangible assets without explicitly considering the associated and much larger investment in the intangible marketing assets which were critical to the success of the whole venture. By utilising outside agents during the launch phase, the company surrendered control over a key element of product quality. Any shortfall in initial customer quality perceptions could have dramatically affected the success of the launch and hence the real value of the substantial investment in marketing during this launch period.

Accounting Principles

The reasons for a lack of rigorous financial justification linked to pre-set, clearly defined objectives for all major marketing investment decisions are several and oft-debated. At the heart of the problem are the accounting principles which govern financial reporting in the US and the UK and which are applied to protect the interests of shareholders and creditors. Two of these fundamental accounting principles are the prudence concept and the matching concept. The matching concept states that where there is reasonable certainty that sufficient and related revenues will be generated in future accounting periods to more than recoup current expenses, these expenses can be carried forward as assets on the balance sheet to be matched against the corresponding future revenue. However it is argued that when it comes to most marketing expenditure there is no certainty that sufficient future revenues will be generated. Thus under the prudence concept marketing expenditure has traditionally been written off against profits in the current accounting period. This prudent treatment of marketing expenditure for financial reporting purposes should not, but often does, preclude managers from internally evaluating marketing investment decisions over the long term. Marketing does after all involve making long term investment decisions, and is not merely a question of allocating expenditure within the current year; marketing expenditure today could easily generate revenue over a number of future time periods. However the influence of these financial accounting principles on internal accounting for management decisions has, in many companies, been strong enough for these organisations to operate both accounting systems under the same principles and conventions to the considerable detriment of marketing investment. Needless to say companies which do not have the will or resources to carry out internal marketing investment analysis properly can put themselves at a competitive disadvantage, and may even make their business a prospective acquisition target for an organisation which has a more sophisticated approach to this financial evaluation process. Many recent acquisitions have involved very high prices being paid for intangible marketing assets such as brands.

Effectiveness versus Efficiency

An essential feature of marketing investment analysis is to assess the effectiveness of the marketing activity in achieving pre-set objectives. This is not the same as measuring efficiency which is already adequately monitored in many companies (for example, media buying efficiency). Given a marketing objective of

evaluate the potential alternative strategies to see which is likely to be the most cost effective in achieving this aim. Possible alternatives might be an incremental investment in direct media advertising, using coupons to create new consumer awareness, or a combination of some advertising and a smaller level of couponing. This most cost effective alternative should then be financially justified by comparing the financial benefit which should flow from achieving the specified objective against the forecast cost involved.

This differentiation between efficiency and effectiveness is an important concept to grasp. Efficiency measures either the units of input required to achieve a given level of output or the output achieved in relation to the units of resources input into a specified process. It is therefore more of a technical measure of success and failure. Effectiveness, on the other hand, considers whether the right outputs are achieved which will meet the pre-set objectives, and is not interested in the purely technical efficiency of the input-output relationship. For example, it is relatively easy to measure the efficiency of a company's media buying operation by comparing its costs per 'opportunity to see' against a standard or the industry average etc. This efficiency measure says nothing about the effectiveness of the advertising shown which needs to be compared against a well defined and measurable objective. Trying to measure effectiveness of this type of marketing performance directly in financial terms is often impossible, so key non-financial objectives and measures must be included in the planning and budgeting process.

Failure by companies to state clearly in advance their objectives for marketing strategies is a frequent occurrence. If the key objectives for any marketing investment are not established before the implementation decision is taken, it is very difficult to judge in retrospect whether the decision has been *effective* in achieving its aim. In the case of the product range extension example, a simple crude discounted payback calculation by MARC revealed that the investment in advertising in one region had a longer payback than the estimate of the new product's economic life, as determined by the company's own projections for its market share. This was also in the region where the highest market share was achieved!

Strategic Thrust

Not surprisingly this led to an interesting discussion regarding the company's original strategy. The product concerned was the main cash provider for the whole organisation, and yet it appeared that the company was

throwing marketing money away without giving proper consideration to the implications for the organisation as a whole. There was clearly a conflict between the overall corporate objectives for this product group ("this mature business is a cash cow") and the specific marketing objectives implicit in the new range extension ("investing in a new market segment"). Under these circumstances any long term marketing activity should have been thoroughly financially justified in case either the long term decline of this mature market continued or the new product was a 'fashion' fad and did have a relatively short life-cycle.

A mismatch between strategic thrust and organisational structure is also not an uncommon problem. In this organisation the managerial structure was based on products and brands. Managerial performance was judged on the performance of these products and brands. It was therefore the objective of the individual marketing managers to sustain the life of the mature products or brands for which they had responsibility for as long as possible while bringing in an acceptable level of profit and cash.

The group's strategic approach was at odds with this. Based on the portfolio theory the organisation had designated one product group as the main cash cow for the organisation i.e. low net investment, high net cash flow. However the managers of this product group were determined to enhance the performance of the products within this business, which was their only business and hence on what they themselves would be judged, and so they invested in a new product even though it was likely that the opportunity cost of this new investment was high. From the group perspective, the resources should not have been redistributed away from the core product in this way. The managers in this area were concerned with how their performance would be perceived when it was compared with those managers who were in charge of products in growth markets; thus they were creating their own mini portfolio of products so that they could also show some growth. Unfortunately such a collection of mini product portfolios will always sub-optimize the performance of the overall group; indeed it can make the group structure irrelevant and lead to the ultimate break-up of the organisation.

Corporate Brand Name

There was another problem. The brand name of the products within this cash cow business was synonymous with the company name. Also the brand name was used almost as a substitute for the product description. To what extent therefore should the company forego opportunities to maintain or build on its market leadership in this mature business in order to invest in other growth areas?

The objective of the range extension was to reverse the decline in the company's share of the whole of this market sector. An umbrella branding strategy was considered to be the most effective approach for the new launch, stressing the values of the company name and its long-time associations with this particular sector of the market. However in view of the fact that the company was trying to create a new market segment, the creation of a separately identifiable identity may have been preferable. Also if the new product is launched under the same brand, with the same value proposition, with an overall marketing campaign, the likelihood of stealing consumer sales and effective retailer distribution from the existing main product offering must be increased.

MARC was asked by the company to evaluate retrospectively the initial marketing activities which supported the new product launch. This involved a combination of TV advertising and couponing in some regions and just couponing in the rest. The original marketing plan stated that TV advertising would be tested in one region, and then it would be rolled out nationally if successful. The objective of this launch advertising was to create the awareness and stimulate retailers to take up distribution of the new product. Further awareness and trial would be encouraged by the distribution to consumers of coupons giving a discount on a trial purchase. Evaluation of the cost effectiveness of investment in couponing alone versus investment in couponing and TV advertising was required. What were the incremental benefits of the TV advertising? In fact the retrospective evaluation showed clearly that there were no incremental benefits. Unfortunately the company did not discover this until after it had gone national with the TV advertising because it had not quantified in its initial marketing plans what it meant by a successful campaign and thus had not evaluated the investment in regional TV advertising in a financial context.

From the analysis of this first project we can identify the first three of the critical success factors: clarifying your objectives, understanding life-cycles and selecting an evaluation technique appropriate to measuring effectiveness within the time-scales of the decision.

Critical success factor 1: Clarifying your objectives.

The starting point for analysis of a potential marketing investment (indeed any investment decision) should be a set of pre-agreed corporate objectives. These can be broken down into a sub-set that drives the specific marketing objectives and against which the elements of the proposed marketing expenditure can be financially evaluated. In the case of subsidiary companies, their own objectives should fit in with the overall corporate objectives. Each business unit within the subsidiary should then have its own specific objectives which can be accommodated within the objectives of the subsidiary, i.e. a hierarchy of compatible objectives must be developed. When deciding whether to launch a new product, management must decide whether the new product meets these criteria prior to authorising the marketing activity. This may seem an obvious point, but in MARC's experience marketing investment decisions are all too readily taken without management being able to justify the decision properly in the context of specific business objectives; too often vague statements such as 'strategically important' are used to avoid any rigorous financial evaluation.

To set realistic objectives for the marketing activity involves understanding the market and the consumer and anticipating how competitors will react and what the consequent impacts on the market and the consumer might be. This involves adding quantitative financial analysis to the market research models which in every other respect are already pretty sophisticated. This would then enable a company to calculate the impact on sales revenue of a 1% drop in market share, which is a relatively direct relationship, but also the changes caused more indirectly via changes in the levels of product distribution and consumer awareness could be incorporated. Unfortunately in many organisations financial managers are rarely involved in evaluating market information and so the marketing managers make financially important decisions just on the basis of qualitative information.

Critical success factor 2: Understanding life-cycles.

The company's response to not justifying long term expenditure on what was essentially a short-lived fashion product was "well, that old adage about products having life-cycles is a load of rubbish, isn't it? Just look at our main brand in this market. It is over 100 years old and shows no sign of reaching the end of its life." It is a common misconception that because a brand has an indefinite life, then so too does the product behind the brand. Within the life time of the BMW company, for example, there have been many product changes. The brand name is in a very long mature phase of the life-cycle; but the individual product offerings, e.g. each version of the 7 Series, 5 Series, etc., have quite short life-cycles. The key to the continued success of BMW is the strength of its brand image which enables a smooth transition from the old product to a new, improved product to take place without any significant loss of market share or revenue. This should continue to be true as long as each new product launched under the main brand meets customer expectations in terms of quality, image and value which have been built up by the brand over many years. Indeed the concept of corporate branding can be extended beyond one product category where the brand is used to create expectations of high quality, or very good value for money, etc. Thus the brand can be applied to a wide range of products in a sector where each product may have a short life-cycle, e.g. say with electrical products, or a wide range of high quality luxury items such as Dunhill, or for a supermarket retailer selling its own-label (retailer brands) range of products which offer good value for money to the consumer across the whole range of supermarket products. In all these examples the branding can be transferred to new products and hence a brand can continue successfully for an indefinite period if properly managed and transferred away from declining products at the right time.

So although in the case of our new product launch an umbrella branding strategy was used, the product itself still had a short life-cycle. The company may be able to prolong the life of the brand by spending additional brand investment on a new product, but the separate product life-cycle of the new product must still be analysed in justifying the incremental spend.

The logic of the sub-brand identity given to products under an umbrella branding strategy is to try to appeal to different segments of the market, but the ability to do this can be limited by the overall brand association. In our company's case the new product may have been sufficiently removed from the rest of the family that

the associations were very tenuous and so, rather than enhancing the value of the brand, it may only have succeeded in devaluing it.

Critical success factor 3: Selecting an evaluation technique appropriate to measuring effectiveness within the time-scales of the decision.

Once the marketing objectives have been defined and the particular activity being justified has been placed within these objectives, the strategies should be linked to the financial expenditure proposed. This should be done in such a way that it is possible to evaluate using, an appropriate financial technique, the return versus the expenditure on, say, the incremental cost of an increase in brand awareness. This part of the analytical process is represented in Figure 1.

The economic justification for any long term investment decision should be carried out over the full life of the investment. This is because if the financial returns fluctuate greatly over this long period, it is illogical to try to judge performance over much shorter periods by using only one standardised measure. For these purposes the method commonly used by 93% of companies (Reece and Cool 1978), namely return on investment (ROI), is unsuitable because of the accounting problems of defining 'return' and 'investment' and because the measure over-emphasises the short term to the exclusion of any long term benefits. Of far greater relevance to long term decision-making is the internal rate of return (IRR) or profitability index (PI) as used in discounted cash flow (DCF) techniques which take into account the time value of money.

INSERT FIGURE 1

For such analysis to take place the manager must choose an appropriate discount rate and evaluate the life-cycle of the project. There are four factors to consider in choosing an appropriate discount rate. These are:

1. The firm's cost of capital, i.e. the rate of return the firm is expected to generate on the capital invested in it.
2. The return available on alternative projects.
3. The opportunity cost of investing capital outside the firm.

4. The firm's attitude to risk. The higher the level of risk, the higher will be the discount rate. Attitude to risk will vary from business to business and depend on the corporate or divisional objectives.

The fundamental premise of the Boston Consulting Group's portfolio theory was the balancing out of the different cash flows in each of the different stages of the product life-cycle so that value is optimised as is shown in Ward (1989). Diversification into new products or new markets can eliminate some of the risk unique to the organisation. A company with a diversified product range may have some products in the development stage (with negative cash flows) where one would consider there to be quite high business risk because of the uncertainty as to whether the product will ultimately prove to be successful. However there should be other products within the portfolio which help to balance this out. Products in the mature stage of their life should produce high positive cash flows as this repays the initial investment made in their development and launch. The amount of risk at this stage is relatively low but the continued success of the company depends on its ability to replace existing products when or before they reach the end of their economic life.

Identifying exact life-cycles is considered by many managers to be a difficult task. However this is an irrelevant skill. The need to be precise in defining a particular product life-cycle suggests that the company is over-reliant on this product, and the consequences of its failure to survive a specific number of years are dire. All that managers really need to consider when evaluating marketing investment in a new product launch is whether the life-cycle is going to be very short (say, less than 5 years) or long (over 25 years).

Project 2: Launching a New Product in a Growing Market

The second project from our leading company involved the launch of a high value, premium priced product into a rapidly expanding market which had already attracted some major players, who had launched new *brands* supported by aggressive marketing campaigns. The new style of packaging the product, which enabled consumers to see what they were buying, was perceived as a real value enhancer. The brand was to become the 'standard bearer' for the company in this market. An umbrella branding strategy would again

be used, with the funds being transferred from another, similar product category. This similar product was in a market segment which had been adversely affected by the rapid development of the new higher value-added products launched by competitors. The marketing support activity would consist of a national couponing campaign which would be followed by regionally based TV advertising, the amount dependent on the relative weight distribution established in retailers. The level of marketing investment was therefore likely to vary from region to region and so analysis should take place region by region. In fact this type of regionally variable marketing strategy provides an ideal opportunity to carry out controlled analysis of the financial effectiveness of different levels of marketing support, but the controls must be set up before the project starts.

This project was considered by the company to be a significant investment and should thus be financially justified. However the basis on which the company tried to justify the investment was wrong. Once more the requirement of critical success factor 1 was not met. The company had not sufficiently clarified its objectives against which the actual outcome could be classified as a success or a failure. Was the strategy to differentiate the new product to create a new market segment, or was it positioned to compete in the mainstream market against the other new entrants? What level of share was required to rate the launch as a financial success and how dependent was any success on the continued growth of the market? The investment decision also needed to be judged in the context of the effect on the existing product range in this market, which was losing financial resources to the new product launch.

Critical success factor 4: Evaluating against the base case.

An alternative that should have been considered and evaluated, and it is one that is frequently neglected, is the decision *not* to launch the new product. This base case avoids any risk of devaluing the brand and stealing market share from the existing product range, but should accept that the sales of existing products may decline as they become uncompetitive against other new offerings in the market.

The financial evaluation process must involve the comparison of alternatives. This is because an essential concept in decision making is opportunity cost, which should be measured by the profit foregone under the best available alternative (or, there is no such thing as a free lunch). The Ford Cortina/Taurus was a very

successful product across Europe but Ford decided to forego future cash flows which could have been generated by milking this established but ageing product and continuing to invest in the future by launching the revolutionary styling of the Sierra as its replacement. In the short term this major investment adversely affected cash flows because of the huge research and development, new tooling and launch marketing outlay; but over the long term the company was able to maintain its share of the market which would undoubtedly have declined sharply if the old style model had been forced to compete against new competitive products.

Included in the evaluation should be the effect on the company's existing products, e.g. the cannibalisation of market share. With this second project, the marketing resources needed to support the launch of the new product were to be redistributed away from the company's existing product in this market. Once again the company argued that the products were not in direct competition with each other and therefore there was likely to be minimal cannibalisation. However the evaluation process should have included justifying the deinvestment from the existing product, and such an argument should lead managers to question the logic of any umbrella branding or common marketing strategies for these apparently unrelated products..

Also in justifying a range extension, evaluating the steal factor from existing products is crucial there as well. Managers need to calculate the net incremental cash flows after taking into account the likely losses through this cannibalisation.

Critical success factor 5: Control of the investment decision.

The monitoring and control of the marketing investment after the launch of the product is just as vital as the initial evaluation and justification of the marketing investment decision (see Figure 2). A proper understanding of all the variables involved, and how they inter-relate, is vital. This will enable the company to respond to changes in the market or to competitor reaction by altering the marketing mix and knowing what impact this is likely to have on sales and brand share.

INSERT FIGURE 2

Although, as already discussed, the decision should be justified over the long term, it is vital to exert control over each of the phases of progression; and in the early stages of development neither ROI nor DCF is an appropriate control parameter. Strict financial control via adherence to a budget or allocated expenditure limit is inappropriate as there cannot be too much certainty as to the level of investment to be committed to see whether the product is marketable. The objective of the business, at this stage, should be to achieve specific measurable milestones (e.g. 50% consumer awareness or 70% effective distribution by value) which may not be quantifiable in financial terms in the short term. Consequently the embryonic stage can be most sensibly controlled by reference to the achievement or otherwise of those identified milestones. These critical achievements should, in the longer term, lead to the achievement of a more than satisfactory return on the total investment. It is important that the interrelationships among these separable milestones are evaluated and monitored.

In the growth stage, where marketing is again the key, the long term nature of such expenditure warrants using appropriate long term decision criteria such as DCF to evaluate the investment. It should now be possible to forecast future cash flows with sufficient accuracy to make the use of this sophisticated technique worthwhile; particularly where it is used to highlight the critically sensitive items of future cash flow, which will require the most careful monitoring.

As the product reaches maturity, the emphasis on control should shift to enhancing profits and cash flows in the short term as the financial attractiveness of longer term investment to achieve growth reduces. Suitable financial control measures would now be profit margins or ROI.

Critical success factor 6: Building a marketing investment analysis model.

Four key variables for pre and post launch financial evaluation and control are awareness, distribution, trial and repeat purchase, and these are normally tracked by the company's marketing department. The relationship between the four variables can be best discussed by considering the launch of our new product.

Part of the opportunity cost issue in launching new products is the need to compromise on individual objectives but to try to achieve the optimum overall position; a good example is the trade-off between

awareness and distribution. The ideal goal would be 100% distribution with 100% awareness, but even aggressive brand managers would agree that this is unattainable. So the company must consider, for example, which of the combinations shown in Figure 3 is ideal. The cost of achieving each of these levels will have a bearing on this decision. For example in the case of the new product launch described above, the first £1m spent on awareness achieved a 35% result whereas a similar amount spent on creating distribution created a 50% level. Both relationships will be subject to the law of diminishing returns but careful monitoring is required to establish the shape of each curve which is critical to optimising investment.

The differentiation between development and maintenance activities is also important because beyond a certain level it is prohibitively expensive to try to increase awareness or distribution. Expenditure should now be directed at maintaining the existing level. This will focus management's attention on the different control mechanisms which are appropriate for monitoring performance in each stage of the marketing strategy - development and maintenance of the new product. It is interesting, but not altogether surprising, that many marketing led companies do not seem to accept that their products will ever stop growing and that marketing expenditure on expanding sales volumes may cease to be financially justifiable.

The third variable in the marketing investment analysis model is trial. This will depend on the effectiveness of distribution and awareness. The effectiveness of awareness depends on the quality and quantity of distribution and advertising. To encourage trial the company distributed coupons, which gave the prospective consumer a discount on their initial purchase of the new product. The direct success of this activity can be evaluated by considering the redemption rate, although an indirect benefit can be to enhance awareness levels, even if the coupons are not redeemed.

The fourth variable, repeat purchase, will depend on the quality of the product and its price as compared to the competition. From a solid base of consumer awareness, the advertising message should develop a brand image: the product will be liked by the consumer who is attracted to the brand offering, provided that the product when tried lived up to the expectations created by the launch marketing strategy. Hopefully this satisfied consumer will become a regular user of the product. This appreciation will be reinforced by repeated TV advertising which should reduce the loss of customers through the inevitable decay factor. A

key area of evaluating the effectiveness of maintenance advertising expenditure is to try to establish the most cost effective method of maintaining consumer awareness. Should advertising bursts be short and frequent, or more intensive but spread further apart? Again the ideal marketing position of continuous saturation advertising is unjustifiable.

The fundamental assumption on which this new product launch decision was based was that there was expected to be a high level of market growth for the next five years. As part of its sensitivity analysis the company should have made a set of projections at a lower rate of growth to see whether the investment could still be financially justified. MARC did such an analysis.

Let us assume that our company has forecast an average rate of growth for the market of 15% per annum. Figure 4 shows the state of the market at the end of Year 5. By reforecasting annual market growth only slightly lower at 12% p.a., it can be seen that the market leader, Brand A, would generate over £6m p.a. less sales revenue due to the lower rate of growth. Brand A is owned by a very aggressive major competitor who had been investing heavily in launching and developing its own product and who would not sit back and simply accept significantly lower sales revenues. It would want to increase its share to maintain its original brand share value. If the other major players and our product were to do the same, then the 'others' would be left with only two-thirds of their original slice of the cake (see Figure 5). This would seem an unlikely scenario. It is far more likely that our product, being the new entrant, will lose out with the increased competition unless it invests more effectively in its marketing support for the brand.

Figure 4

	YEAR 5 ORIGINAL FORECASTS (15% p.a. growth) £210m TOTAL MARKET		YEAR 5 REVISED FORECASTS (12% p.a. growth) £184m TOTAL MARKET	
	Share %	£m	£m (original shares)	Share to maintain original value
Brand A	24%	50.4	44.2	27.4%
Brand B	20%	42.0	36.8	22.8%
Brand C	18%	37.8	33.1	20.5%
Our product	10%	21.0	18.4	11.4%
Others	28%	58.8	51.5	[17.9%]

INSERT FIGURE 5

The implications of such analysis are that, firstly, our product's success is dependent on strong market growth. One has to question whether this is the right approach for a 'standard bearer' brand. The lack of an offensive strategy may have been due to the uncertainty over which segment of the market the company was targeting.

The second indication concerns the pricing strategy. Rather than pricing high to skim off the cream of the market, a lower price used to penetrate the market should achieve higher share. The price could possibly be increased at the mature stage of the product life-cycle once the superior quality brand image had been imposed on the product and the larger share of the mature market could generate much higher cash flows in total over the total life-cycle. The company appeared to be guilty of arguing that this launch was a major new growth area for the business while simultaneously expecting a high level of financial return in the relatively short term.

Critical success factor 7: Using feedback as a learning tool.

The control process of marketing investment analysis can provide feedback about some of the key relationships, for example between distribution and awareness, which will be invaluable learning tools and help managers to make better investment decisions (see Figure 6).

Feedback also provides motivation to managers, informing them of where they went wrong and how they might improve next time. This can be best done by having a system of accounting which produces information by responsibility centres to allow effective control information and feedback to be supplied to the decisions makers.

One type of responsibility centre is an investment centre, where performance can be measured by putting profit into the context of the marketing investment required. However in companies which use investment centres, the financial measure of investment is normally restricted to the tangible assets controlled by the business unit. Thus for many businesses the most significant and important assets are ignored.

Figure 6 shows how the feedback function fits into the marketing investment analysis model making it complete and dynamic.

INSERT FIGURE 6

Conclusions

The financial justification of marketing investment decisions is an essential requirement for ensuring that these major strategic decisions, when implemented, are effective in achieving the companies pre-set objectives.

This means that there should be a greater separation of financial reporting and management accounting systems so that managers have the information that they need to evaluate their decisions over the long term, and are not in any way constrained by the short term prudent requirements of external financial reporting.

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FIGURE 1: OBJECTIVES, STRATEGY & EVALUATION

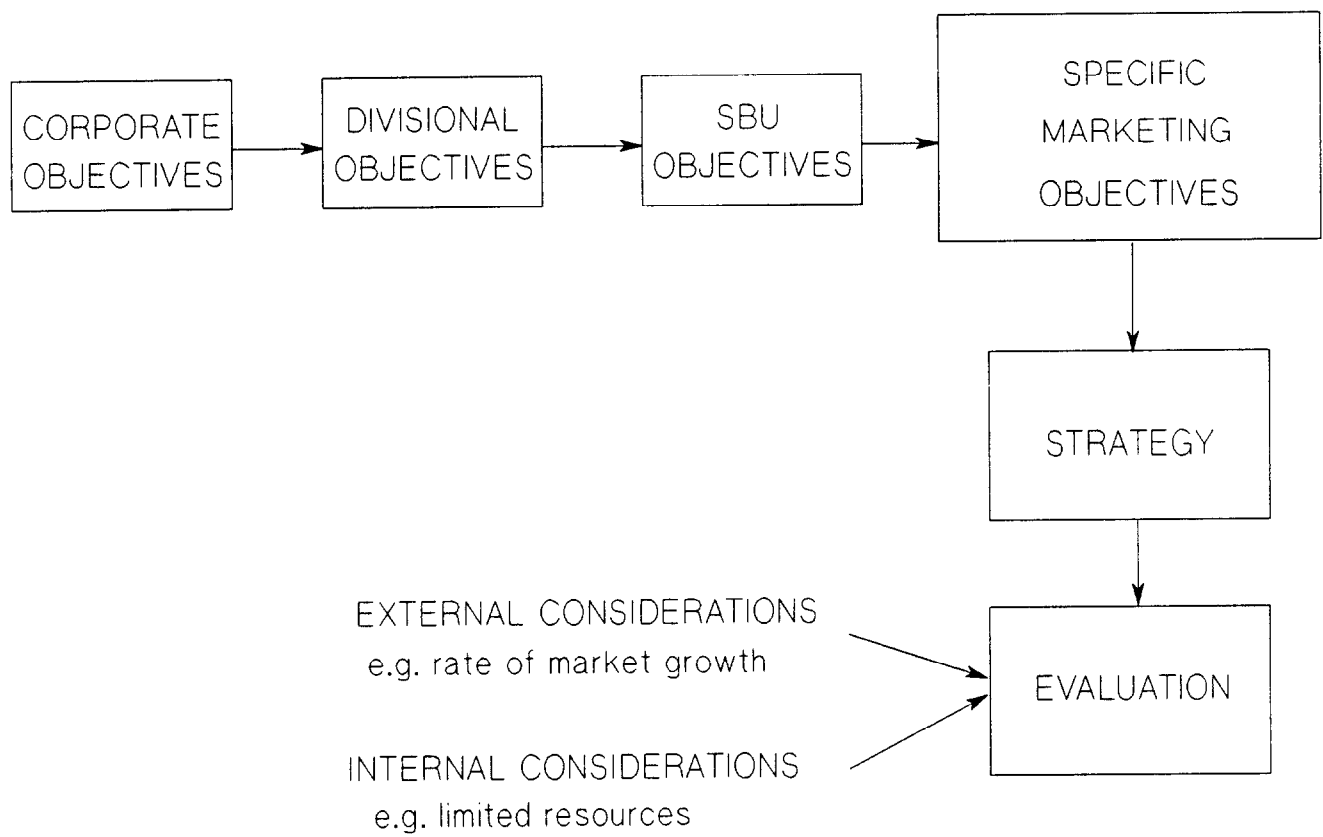


FIGURE 2: CONTROL FUNCTION

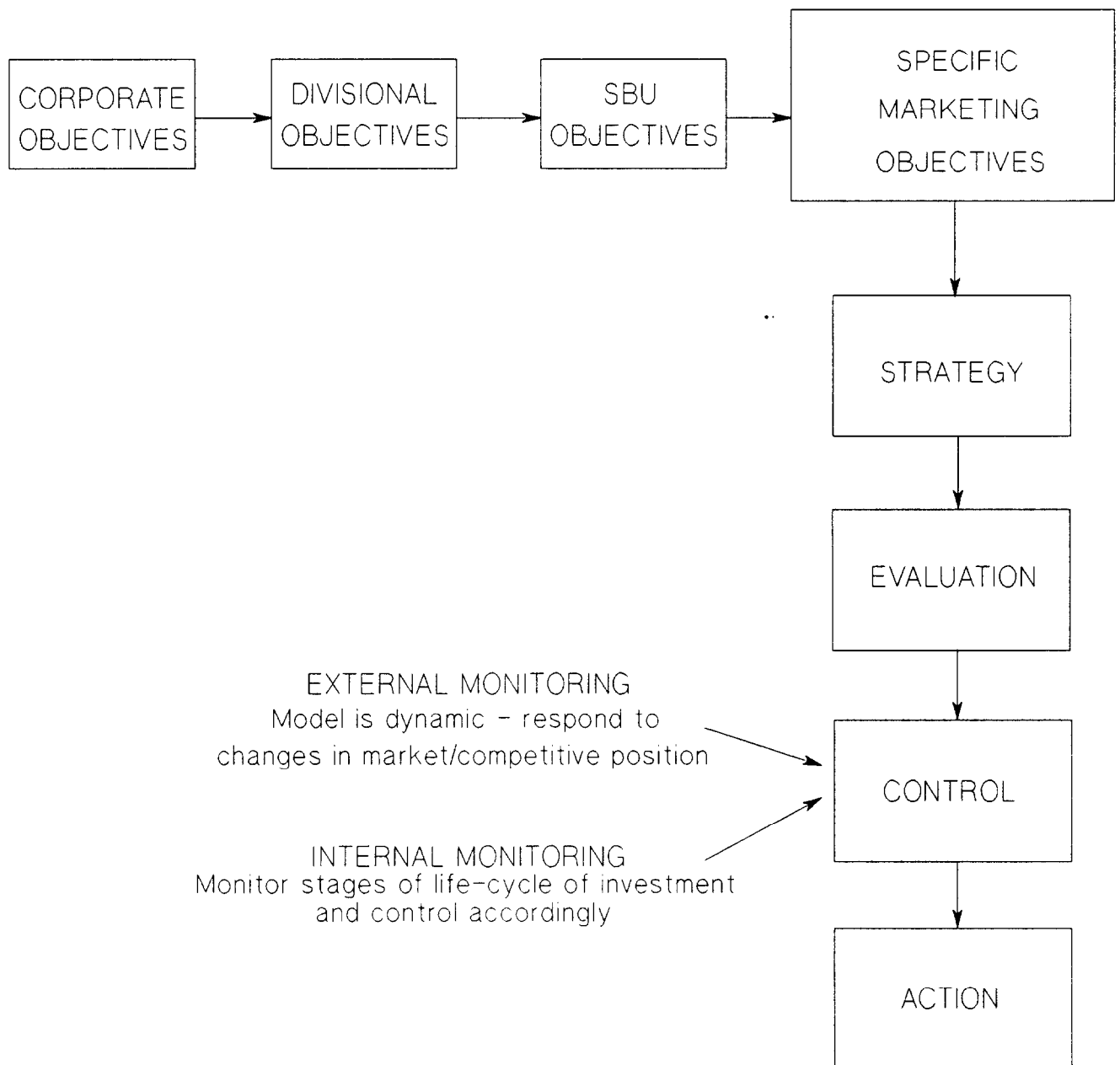
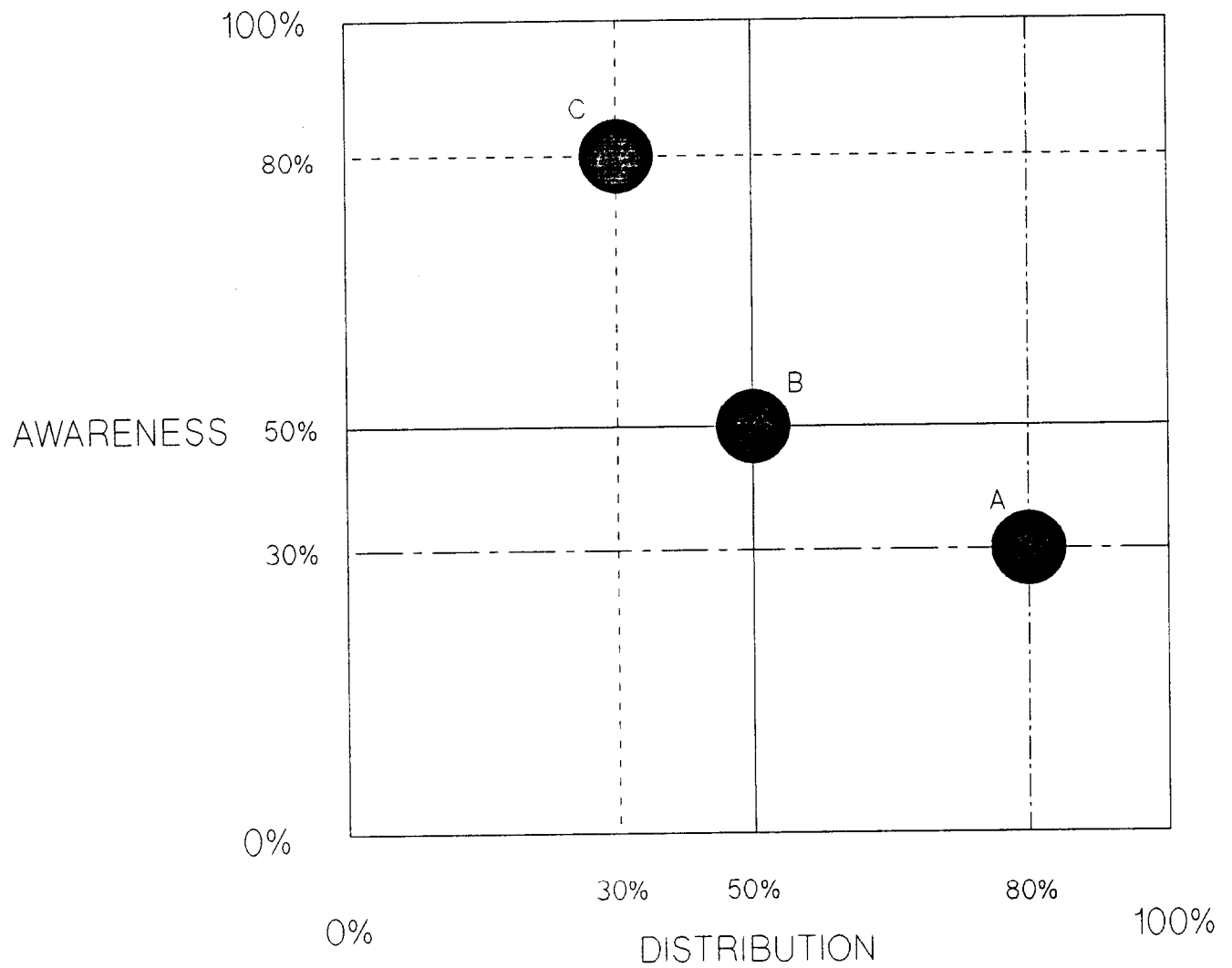


FIGURE 3: TRADE-OFF BETWEEN AWARENESS AND DISTRIBUTION



Which is the best trade-off position?

- A: 80% Distribution with 30% Awareness
- B: 50% Distribution with 50% Awareness
- C: 30% Distribution with 80% Awareness

FIGURE 5(i): BRAND SHARES IN YEAR 5
ORIGINAL FORECAST: £210M MARKET

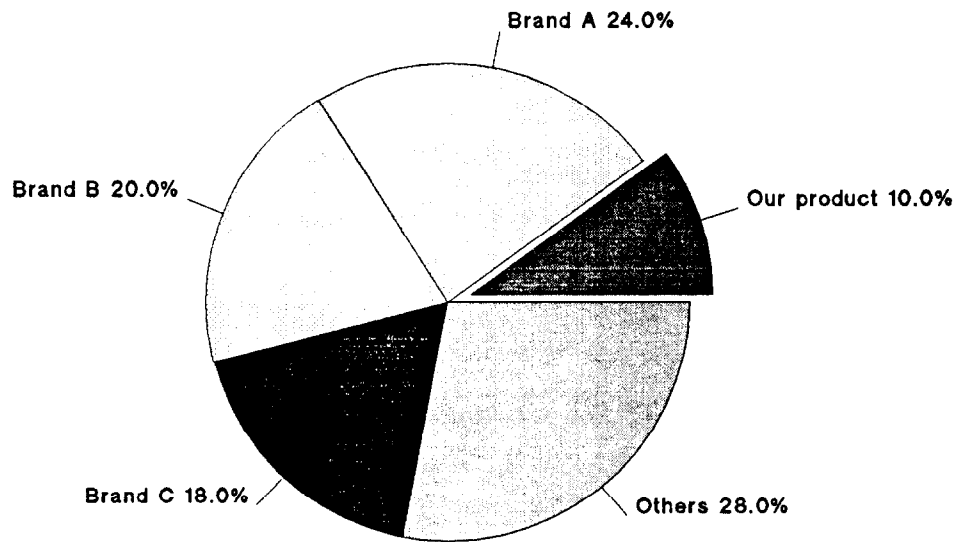


FIGURE 5(ii): BRAND SHARES IN YEAR 5
REVISED FORECAST: £184M MARKET

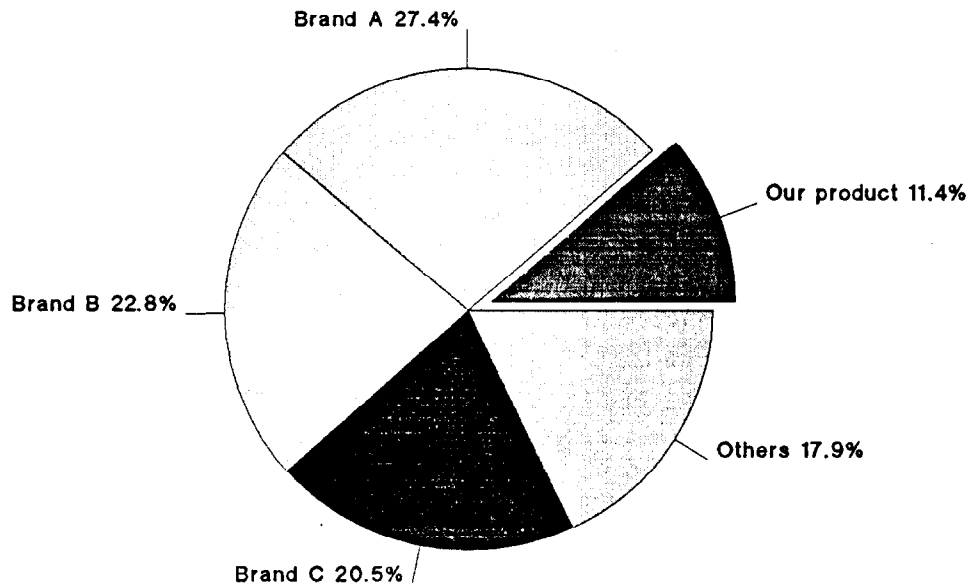


FIGURE 6: MARKETING INVESTMENT ANALYSIS MODEL

