Marketing control in retailing

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Control has long been recognized as one of the tasks a manager must perform. The objective of this paper is to detail the steps involved for marketing control from a retail managers point of view. There is an abundance of literature that deals with control and especially marketing control. Yet there is very little specific information for retail managers to follow. This paper discusses why marketing control is necessary in the retail firm and then gives an in-depth view of the marketing control process. It also attempts to show how effective marketing control in retailing may help the retailer to survive in a rapidly changing environment in Southern Africa today.
S. Afr. J. Bus. Mgmt. 1981, 12: 33 – 37

Dit is reeds geruime tyd aanvaar dat beheer een van die take van 'n bestuurder is. Die oogmerk van hierdie artikel is om die stappe wat betrokke is in bemarkingsbeheer vanuit die bestuur se oogpunt in besonderhede te bespreek. Daar bestaan baie literatuur waarin beheer, veral bemarkingsbeheer bespreek word, maar daar is baie min inligting beskikbaar wat veral op die kleinhandelbestuur betrekking het. Hier word 'n uiteensetting gegee waarom bemarkingsbeheer in die kleinhandelsonderneming nodig is, en die bemarkingsbeheerproses word in diepte beskou. Die artikel is verder ook 'n poging om aan te toon hoe doeltreffende bemarkingsbeheer in die kleinhandel sal help om die kleinsakeman kop bo water te laat hou in die snel veranderende omgewing van Suider-Afrika.
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Control is necessary in the firm for a number of reasons[1]. Firstly, control must be seen as part of planning, organizing and co-ordination in the firm. So planning can be said to be the first step in control because without it control cannot take place. Control is thus used to guide the retailer's performance towards planned results, to indicate needed adjustments, and to identify, correct, and prevent mistakes. Secondly, control is also necessary in retailing because of the changing environment in which the firm functions. The retailer is faced with social, economic, political and technological changes. In addition, the competitive environment is always changing in retailing, such as new institutions developing in competition with existing ones. The retailer's target market must also be studied because their patronage motives have an important influence on the firm. The third reason for marketing control in retailing is the growth of retail firms. As the firm grows, more space is needed for the display and storage of goods, more personnel is needed, and new branches or departments are opened. This expansion leads to a greater need for control points to identify problem areas.

Good planning does not mean that control is not necessary. Kotler says that '. . . the best laid plans are subject to the caprices of nature and other men. Therefore, it is not sufficient merely to develop plans — provision must be made to monitor the results of company efforts and to make adjustments when they seem warrented.'[2] Thus, without a control system, the retailer will find it difficult to identify problem areas in their early stages, and be able to rectify them almost immediately.

The control process

The control process in the retail firm is an ongoing process and consists of four steps, namely: the establishment of performance standards at strategic points; the measuring and recording of actual performances at strategic times, and comparing these with the set standards; making evaluations of the variances between actual and performance standards; and taking decisions for future action. Each of these steps in the control process will now be discussed.

The establishment of performance standards at strategic points

According to Bell, ' . . . a standard never represents ideal performance. Rather, it indicates the level of performance that is actually expected'.[3] A standard is thus a reasonable and achievable goal. Thus, the setting of standards is planning which includes the setting of achievable goals. A standard can be set for many types of retailing activities, such as the total amount of dresses to be sold per salesperson per day, or the total number of new accounts to be opened by the credit department per day. Standards can be determined in both quantitative as well as qualitative terms for the different marketing activities in the retail firm. The quantitative standards for marketing control in retailing will now be discussed and consist of input, output and productivity standards.[4]

Input standards

According to Lipson, '. . . input standards serve in evaluating and controlling the efforts that go into marketing operations'.[5] Inputs are thus the activities and resources of retailers which can be measured in rand value or physical units.

The input standards which can be measured in terms of rand value are usually incorporated in some sort of budget. These budgets are thus written plans of projected marketing operations that spell out the resources needed, to reach the desired marketing goals. The input standards for the marketing activities, such as the salesperson's salaries, are usually included in the planned income statement. The manpower (labour) budget is an estimate of the number of persons (man-hours) needed to perform a particular marketing activity during the time period of the budget. This budget will serve as a standard for evaluating the efficiency of manpower utilization in the store. This can be done by relating for example, the total number of sales personnel to the store's gross sales. In this way, the average gross sales per salesperson will be established.

The following are some examples of input standards which should be used by the retailer: Salaries of salespersons; salaries of administrative personnel; rental of land and buildings; investment in fixtures and fittings; investment in motor vehicles; investment in stock; square metres of selling space; customer accounts (debtors); alteration costs; and discounts allowed.

These input standards can be set by the retailer in a number of ways, depending on the size of the firm and the type of organization structure. These inputs could be set per store, per area or region, or per department within a store. This will enable the retailer to make comparisons within his firm with regard to the different input standards.

Output standards

Output standards are set norms which are used to control marketing results or outputs. Thus, outputs are a retailer's results which can be measured in rand value or physical units. Examples of marketing outputs in retailing are: gross sales; credit sales; cash sales; gross profit; net profit; market share within the trading area; and store image.

Sales are the most important marketing output. According to James. '. . . since all other activities of a firm are dependant upon sales, it is only logical that sales must be planned before other planning can take place.[6]

Two output standards can be set for marketing control in retailing. The first is the sales forecast, which is the expected sales output of the retailer. This sales forecast is usually expressed in rand value. Because of the many different types of merchandise stacked in a retail store, it is difficult to record sales of each individual item. Instead, standards are set for broad categories such as dresses, trousers and shirts. The expected sales per area or region, per store, and or department is a useful output standard that actual sales can be measured against. The second output standard is the sales budget. A sales budget consists of the expected sales, and the expected costs to realize these sales for a specific future time period. The sales budget is an effective control medium for marketing and retail management because it includes both input and output standards.

Productivity standards

According to Lipson, '. . . a productivity standard involves a relationship between inputs and outputs. It is therefore a ratio standard that relates the efforts exerted to the results achieved.[7] The productivity standards are possible for any retail activity in which both the inputs and outputs can be directly measured. There are a number of productivity standards which can be used for marketing control in retailing. Some of these standards will now be discussed.[8]

The stock turnover ratio. This ratio is calculated by dividing the cost of sales for the year by the average of the opening and closing stocks, valued at cost. This ratio indicates the number of times the stock should be sold and replaced during a specified period. The retailer can use this ratio for comparison purposes, for example, comparing the stock turnover of different items, departments, stores, and areas. Out of line situations could then be investigated.

The turnover per square metre of selling space. This ratio is calculated by dividing total sales by the total selling space in square metres. With this ratio the utilization of selling space can be determined.

The turnover per salesperson. This ratio is calculated by dividing total sales by the number of salespeople. This ratio reflects the efficiency of the salespeople.

The sales per rand of sales salaries. This ratio is calculated by dividing total sales by sales salaries and wages. This ratio indicates the amount of sales earned by each rand paid out to the salespersons.

The sales per rand of rental paid for land and buildings. This ratio is calculated by dividing total sales by the rental paid for land and buildings. This ratio indicates that for each rand spent in rent of land and buildings, a certain amount of sales are made.

Many other ratios can be obtained by the retailer from his inputs and outputs. The retailer must compare these ratios with ratios from the corresponding previous periods, or compare the ratios of different departments within his store, or stores in a chain store group.

Strategic points for setting retail standards

Standards for marketing control in retailing must be set at strategic points. There are two ways of identifying strategic points in retailers for marketing control. Firstly, standards can be set for each major marketing activity in the firm. Secondly, marketing control can take place at each decision — making centre in the marketing system of the retailer.

Marketing activities as strategic control points

It is difficult to give specific guidelines as regards control points in retail firms because these are influenced by the size of the firm and nature of the marketing activities. However, to be an effective control point, the marketing activity must be measurable, and either a cost centre (input) an income centre (output), or a productivity centre.

The retailer can have the following control points for the undermentioned marketing activities. Marketing information. The retailer can set control points at his marketing research department and his internal data flow department. The retailer can set control points in his legal department as well as his design and shopfitting department because they are responsible for leasing buildings and fitting them out. The retailer can set control points to control merchandise costs, selling prices, and gross margins. The buying department should therefore be a control point. Central points can be set at the retailer's merchandise and transport departments. In addition control points can be set at the sales department, advertising and sales promotion department, as well as the publicity department.

Decision-making centres as strategic control points

Decision-making centres are invested in persons who have the necessary authority and responsibility to make decisions. These decision-making centres are organized and detailed on the formal organization chart of the retailer.

The decision-making centres that are concerned with retail marketing can be divided amongst controlable divisions in a number of ways. These ways depend on the size of the firm and the type of organization. The usual three ways of organizing in retailing are by function, geographic and by product.

On the functional level, control points can be established for example, at the following functional areas: administration, personnel, operations, merchandizing and communication. Further control points can be established within each functional area. For example, in the communication division, control points can be established at the advertising manager and the sales promotion manager sub-divisions. Input, output, and productivity standards could be set here.

On the geographical level, control points can be established, for example, as follows: regional management, area management, and branch management per area. For example, total sales salaries per area measured against area sales can be obtained.

On the product level, control points can be established for example, as follows: merchandise manager, men's wear manager, women's wear manager, children's wear manager. Input, output, and productivity standards can be set for each control point.

When the control points are established, it is important to remember that the persons concerned must have the necessary responsibility and authority for the activities within the control centre. For example, the branch manager cannot be held responsible for certain styles of goods in his store because it is the merchandise manager who is responsible for the buying. The store manager is normally responsible for the selling function, the administrative and the personnel function in his store.

The measuring and recording of actual performances and comparing these with set standards

Control could take place before the actual activity during the activity or after the activity. According to Fulmer '. . . you can choose to prevent the problem, deal with the problem, or see that the problem doesn't happen again . . . post controls are theoretically the poorest approach, and in practice the most common.[9] The ideal would be to control before or during the activity, but this is not always possible. If one could control before the actual activity, variances from standard could be identified and rectified before large outlays of money have been made.

There are a number of ways of measuring and recording of actual performances. These include the marketing audit, personal inspection, marketing research, cost analysis, sales analysis, and productivity analysis.

The marketing audit[2]

According to Kotler, 'a marketing audit is a periodic, comprehensive, systematic, and independent examination of the organization's marketing environment, internal marketing system, and specific marketing activities with a view to determining problem areas and recommending a corrective action plan to improve the organizations overall marketing effectiveness'.[2]

This definition implies that the marketing audit should be carried out on a regular basis by an independent person or persons, and should cover all of the retailer's marketing operations. The marketing auditor should develop a set of systematic questions which cover all the retailer's marketing operations. These questions should cover the following:

- The marketing environment review. The audit must profile the current and expected marketing environment of the retailer. This breaks down into examining the target markets, patronage motives of the store's potential and present customers, competitive activity and the macro-environment such as developments in the economy and government legislation.
- The marketing system review. The internal marketing system must be reviewed in terms of its suitability to the emerging marketing environment. The auditor must examine the retailer's objectives, his programme, the implementation of the programme and the firm's organization.
- The detailed marketing activity review. The auditor must review the retailer's marketing mix, specifically its merchandise assortment, prices, store location, personal selling, advertising, publicity, and sales promotion.
- The marketing auditor should prepare a list of findings based on the marketing audit. If problem areas are identified, the auditor should develop a plan for corrective action.

Personal inspection

According to Allen, '. . . personal observation of people in action can provide a good basis for performance appraisal.[10] Personal observation is thus a qualitative method of control and does not depend on a particular system.

This type of control should be effective in retailing. For example, the regional manager should visit his stores in his region. He will be able to observe a number of things. He should check if the store's windows are dressed according to plan, whether the point-of-purchase material is being used, and if the salespersons are dressed neatly. The regional manager could also make personal observations with regard to the store's management. He can check whether head office reports are completely accurate, and whether managerial duties are being performed according to policy.

Control by personal observation could thus be effective in the retail firm.

Marketing research

Marketing research could be used by the retailer as a method for measuring and recording of actual performances. The following are some of the concerns which can be investigated by the retailer through marketing research:

Evaluating the outlet's competitive position; the store's image; the reasons for fewer customers; evaluating window displays and unsuccessful sales promotions; evaluating a decrease in credit sales; price-quality relationships; and evaluating the patronage motives of the store's customers.

Facts gained through marketing research will enable the retailer to record information from external sources. These facts can be compared with set standards, and thus can serve as an aid to controlling his operations. This could lead the retailer to try to improve his operations.

Marketing research is an important aid to controlling operations. According to Gillespie, '. . . research means fact-finding to decrease costs, to improve sales, and to increase profits . . . if a retailer merely guesses or has an idea that a certain amount of goods is in stock or thinks that more salespeople might be needed at certain times of the day, that retailer is not being scientific'.[11] Thus, marketing research is a scientific way of obtaining information, and does not involve any guessing. Sound decisions can thus be made by a retailer who uses marketing research methods.

Cost analysis[12]

The information on the retailer's income statement forms the basis for the analysis of marketing costs. This statement is a summary in figures of the income and expenses of the firm during a specific period of time.

There are two types of comparisons that retailers can make from the data in this statement. Firstly, the figures for the current year can be compared with the previous year. This comparison is a historical one and thus is not always the best for decision-making. The reason for this is the changes in the retailer's marketing environment. Factors such as competition, new stores, new products, a change in consumer patronage motives, and new products all influence the retailer's marketing environment. Thus, the year to year comparison could be unreliable. Secondly, the retailer can compare the actual figures for the year with the budgeted figures. Provided that the budget has been set using scientific methods, which will aid the firm in reaching its objectives, this method is useful for decision-making.

The analysis of the costs on the income statement may give management a broad idea of what expenses are being contained and which are being overspent. However, this method is not in the detail required by the retailer. It does not show the retailer what the specific purposes of the particular expenses are. The costs in the income statement must be broken down into specific cost centres for the different marketing activities in the retail firm.

For example a retailer can divide his marketing activities into five cost centres, namely sales, advertising, buying, warehousing, and other administrative work. The retailer must bear in mind two things when considering cost allocations. Firstly, each different marketing activity must be identified and clearly defined. Secondly, the different cost centres in the income statement must be allocated to these different marketing activities. It would be easy for the retailer to allocate direct costs because these can be directly identified with a particular marketing activity. A case in point is the salespeople's salaries. Indirect costs must be allocated to each marketing activity in some way. For example, the rental paid can be allocated on the basis of floor space used by each activity.

If the retailer allocates his budgeted costs according to these cost centres, he will be able to compare the actual figures to see if they are larger or lower than budget.

Sales analysis

Sales analysis consists of a comprehensive analysis of sales as reflected on the retailer's income statement. It is an important method of control because it determines whether actual sales are in line with planned sales.

There are different bases for sales analysis which the retailer can use, namely sales per store, sales per area, and sales per product group. The analysis of total sales is necessary because the firm will be able to look at the overall trend. The current year's turnover should be compared with previous year's, as well as planned sales.

The retailer should analyse the sales of the individual stores within a particular area. This analysis will enable the retailer to identify weak or problem stores in an area.

When the sales analysis has been completed, income statements for the different cost centres can be drawn up. These will enable the retailer to identify the profitable cost centres as well as identify problem areas in the firm.

Productivity analysis

As already stated, productivity standards are possible for any retail activity in which both inputs and outputs can be directly measured. This relationship between inputs and outputs can be shown in the form of a ratio. This ratio can give the retailer an indication of the efficiency of certain marketing activities in the firm. For example, the productivity per salesperson can be obtained by dividing total sales by the number of salespeople in the store.

The ratios the retailer develops must have a meaningful relationship so that they provide an indication of the retailer's profitability and productivity.

Making evaluations of the variances between actual and standard performances[13]

A critical analysis of the various differences between actual and standard performances must be made. Among other things, the actual causes of the differences must be determined.

The retailer must make evaluations of the variances in a systematic way. Firstly, he must make sure that the variance is a genuine one. He does this by checking the standards to see if they were set in an objective and scientific manner. He must then check if the actual figure was recorded correctly. If the retailer, for example, finds out that the actual figure was recorded incorrectly, no further investigation into the variance is necessary.

Secondly, the retailer must decide whether the variance is meaningful enough for him to spend more time on it. Upper and lower limits should be set for each variance so that variances outside these limits will be investigated.

Thirdly, all the variables that could be responsible for the variance must be identified. For example, if transport costs are greater than budget, the following are possible causes of the variance: the increase petrol price; making more deliveries per day than planned; not making use of the best or shortest routes; and delivery vans not performing as they should.

Fourthly, the possible causes must be divided into controllable and non-controllable factors. The following factors could be said to be controllable within the firm: not making use of the best possible routes; delivery vans not performing as they should; and making more deliveries per day than planned. The increased petrol price is a factor that cannot be controlled by the firm.

Lastly, the controllable factors must be viewed in relation to the decision-making centres that have the necessary responsibility and authority to influence them. In our example, the warehouse and transport manager can influence delivery routes and delivery van performances.

The retailer is now in the situation where decisions have to be made with regard to future action.

Making decisions for future action

Still states that '. . . the evaluations on comparisons of actual performances with standards, tempered and adjusted by executive judgement, point the way to decisions on needed action'.[14]

The basic aim of these decisions is to take action that will lead to actual figures being at least equal to, or better than standard.

The retailer has the choice of three types of actions to get variances back to standard or even better than standard. Firstly, the actual performance could be bettered. This could involve greater marketing inputs. For example, advertising could be increased or more salespeople employed in the hope that sales will increase more than proportionally. Secondly, the retailer's policy can be reviewed and the strategic alternatives changed to enable the firm to achieve standard levels of performance. For example, the retailer may change his merchandise assortments so that they are better suited to his target market's needs. Thirdly, the retailer can increase or lower the standards themselves. He must do this objectively by being realistic and taking into account the current marketing environment. For example, the retailer may decrease the sales standards because a large competitor has opened up a new branch in the trading area.

The abovementioned steps in control will lead to planning by the retailer. Bell states that '. . . whether in the normal course of performing a continuous management function or as a result of an unexpected change in the market, control activities inevitably lead back to planning. And so the cycle of marketing management goes on'.[3, p 417] Thus, the retailer must view planning and control as one continuing interrelated and ungoing process.

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