Creating Value for the Organization through Marketing

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Abstract

Purpose: Analyzing value created by marketing should cover at least two important points of view. The first is related to the problem of value created by marketing for customers, and the second is related to the value created for the organization (enterprise). This article is focused on the second point of view. Each organization formulates some expectations toward marketing, and next evaluates the results of using marketing in a more or less systematic way. The purpose of the article is to establish a theoretical model of this evaluation using three dimensions: marketing effectiveness, marketing efficiency and marketing productivity.

Methodology: This study was of a conceptual character.

Findings: In presented concept, the expectations toward marketing and value created by marketing are expressed by marketing performance. In turn, marketing performance can be perceived in the three dimensions of marketing effectiveness, marketing efficiency and marketing productivity

Originality: The problem of value created by marketing for the organization (enterprise) isn't too often analyzed in the literature. Existing literature offers an analysis all these dimensions but in most cases in separate way or with some important inconsequences.

Keywords: marketing performance, values, marketing effectiveness, marketing efficiency, marketing productivity

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Introduction

Marketing is often defined as a concept of firm activities that offer special advantages for customers and solve their problems. Firms and organizations create a group of advantages for customers thanks to their market activities. One of the most important consequences of such thinking is paying more attention to customer expectations than to engineer ambitions in the process of product development. Of course, it means that market aspects are more important than technical and technological aspects in the process of offer creation. The American Marketing Association defines marketing as "… the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large"(Kotler and Keller, 2012, p. 5).

Therefore, ***value for customer*** means a group of benefits offered by a firm (organization). Value for customer could be seen as a result of perceived customer benefits (tangible and intangible) offered by the firm minus the perceived costs (Jobber, 2001) of using the offer.

But marketing could also be viewed as a creator of value for the enterprise (organization). CEOs and top level managers more often formulate some expectations toward marketing. They also expect to get "hard data" about the effects of marketing activities.

All types of economic activities (also marketing activities) require higher or lower expenditures. These expenditures are not a subject of detailed analysis in situations of high market growth, significant sales volume growth or profit increase. But in mature markets or in situations of firm or economy crisis, the tendency for deeper cost analysis increases quickly. It refers to different aspects of firm functioning.

It could be stated that discussion about value of marketing activities for firm performance has started in 90' by very well-known articles written by A.H. Kohli, B.J. Jaworski (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993), J.C. Narver and S.F. Slater (Narver and Slater , 1990).

During the last few years, a high pressure for verification of the sensibility of high expenditures for marketing activities could be observed, also in Poland. Marketing activities started to be perceived as those that have consequences in significant costs and require increasing marketing budgets. In this context, the problem of evaluating the effects of marketing activities gains attention. This is a great problem with practical meaning. This is also a reason why many research projects have been done. As an effect of them, fragmentary or complex attempts of evaluating the role of marketing in the firm were published. So the previous problem could be summarized as the question of marketing performance.

Starting new marketing activities usually requires the specialized work of many managers, devoting a significant amount of money for marketing research, developing new products,

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creating a brand and organizing channels of distribution and/or intensive promotion programs. These activities raises a question about the creation of special value for enterprises by people responsible for marketing.

This is a problem of marketing performance. Marketing performance reflects personal skills and competences of marketing managers and their impact on enterprise outputs as well. There's no doubt that firm owners and managers are interested in high performance of marketing activities.

In a broader (philosophical) sense, ***marketing performance*** could be viewed as the ability of marketing in creating positive results of enterprise functioning. In another way (more technical), marketing performance is a ratio of the effects gained by marketing activities for the company to the expenditures incurred for this purpose. This second approach relates the marketing performance category to the efficiency category. So the first approach is more reasonable. In this approach, marketing performance is related to the results of the practical use of the marketing concept and philosophy.

So marketing performance is closely related to expectations toward marketing in the organization. These expectations are connected with three important issues at three levels. The first level of expectations is related to fulfilling the tasks set for marketing activities. The second level is connected with the question of effective fulfillment of marketing tasks. The third level deals with the problem of the marketing contribution in achieving enterprise goals. So evaluation of the marketing role in the company should be analyzed within the following three concepts:

1) Effectiveness of marketing;
2) Efficiency of marketing;
3) Marketing productivity.

In this context, the efficacy of marketing is considered as a result of the effectiveness, efficiency and productivity of marketing.

Each of these concepts refers to a different aspect of marketing activity evaluation. With regard to the ***marketing effectiveness***, attention is focused on the issues of setting tasks for marketing and evaluation of the level of their implementation. The problem of effectiveness is related with the answer to the question: "*Whether and to what extent do marketing activities carried out by the enterprise pursue the tasks that are set in front of them?".* The key issue related to marketing effectiveness is to set the tasks for marketing activities and the ways and measures to evaluate the implementation of these tasks.

The concept of ***marketing efficiency*** shifts the attention to aspects related to the effects and costs of marketing activities. This implies the need to measure the effects and costs and their difference (or quotient) creates the opportunities to answer the question: "*Whether and to what* *extent are enterprise marketing activities carried out in an efficient way (profitable)?"*. Key issues relating to the efficiency of marketing are costs and the effects of marketing activities.

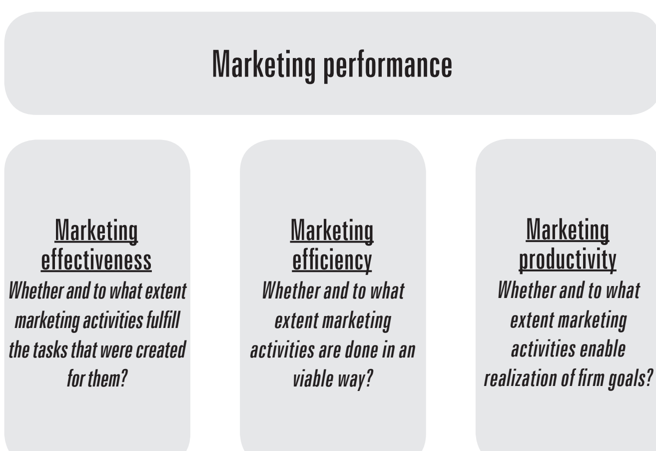
In turn, the ***marketing productivity*** concept refers to the way and effect of the use of marketing in the context of specific benefits for the company (sales, market share, value of the company, etc.). The problem of productivity is related with the answer to the question: *"Whether and to what extent do marketing activities carried out by the enterprise contribute to achieve its goals?"*. The basic issue of productivity is the impact of outlays incurred by marketing activities on the level of selected measures of company evaluation (goals) such as the volume and value of sales, market share, profits or the value of the company.

The way of evaluating marketing performance seen in the context of marketing effectiveness, efficiency and productivity is presented on Figure 1.

These three concepts that allow for evaluation of marketing performance are not fully autonomous. The issue of tasks that stand in front of marketing (within the concept of marketing effectiveness), the effects of marketing activities (within the concept of marketing efficiency) and the realization of company goals from the use of marketing (within the concept of productivity in marketing) is often relegated to the same categories (profit, enterprise value, market share).

That's probably happened in a number of cases, although it's worth considering the reasonableness of such an approach. From this point of view, it is possible to analyze marketing activities not only through value created for customers but also through value created by marketing for the enterprise. Marketing could be perceived as a group of activities that are important for company performance and value.

Figure 1 | Concepts defining marketing performance



Source: author's own interpretation.

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Multidimensional performance conceptualizations has many interesting examples in management literature. Many authors offer a useful perspective based on a conceptual model involving marketing efficiency and effectiveness as components of „performance". N.A. Morgan, B.H. Clark and R. Gooner added adaptiveness to effectiveness and efficiency as dimensions of marketing performance (Morgan, Clark and Gooner, 2002, p. 367). An integrated Model for Measuring Marketing Performance was proposed by Y. Gao (Gao, 2010). An interesting framework for marketing performance measurement is proposed by D. O'Sullivan, A.V. Abela and M. Hutchinson (O'Sullivan, Abela and Hutchinson, 2009). They tested association of marketing performance with CEO satisfaction with marketing. N.A. Morgan, D.W. Vorhies and C.H. Mason tried to find relationships between market orientation, marketing capabilities and firm performance (Morgan, Vorhies and Mason, 2009).

Marketing effectiveness

The problem of effectiveness was a subject of intensive analysis in publications (among others) of K. Adamiecki, P. Drzewiecki, Z. Rytel, T. Kotarbiński, J. Zieleniewski, J. Trzcieniecki, J. Kurnal and W. Kieżun. The broader issue of this problem is anchored in the so called "praxeological concept of efficient activity" (Kowal, 2010, p. 15–28). Focusing on the main idea, it is worth underlining that effectiveness is an measure of achieving the proposed tasks. A task could be defined as a desirable state of affairs in the considered future. But there are significant differences between tasks for the company and tasks for the marketing

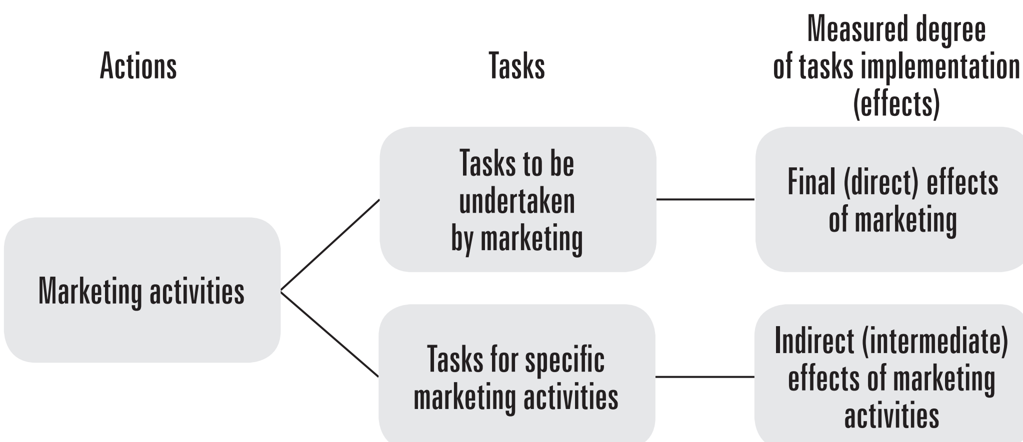
In this context, marketing effectiveness should be perceived with two issues. The first issue is related to the task assigning for marketing, and the second issue is connected with measures describing the level of task realization.

The problem of assigning tasks for marketing activities is very often a subject of many misunderstandings. We have to deal with two different approaches in this case. The first approach treats company general tasks and marketing tasks as fully equated. All these tasks are seen as the final results of company market activities. In this way of thinking, gaining a specified market share or a desirable level of profits is the task for marketing activities. But achieving such goals requires different company activities that in many cases have nothing in common with marketing. So tasks for marketing activities should be rather formulated in such categories as creating value for customers, forming a portfolio of customers, etc. (Urbanowska-Sojkin and Sojkin, 2008).

But these tasks aligned for marketing could be categorized like tasks for different marketing activities or for marketing as a whole. Marketing could also be seen as the sum of specific activities performed by using marketing instruments such as product development, price setting, channels of distribution creation, preparation advertising campaigns, startup of loyalty programs, etc. In the case of such activities, aligning tasks is much more simple and concrete. For example, tasks for an advertising campaign could be formulated into categories of campaign coverage or campaign frequency; tasks for brand creation could be related to aided or unaided brand recall.

Another important issue of marketing effectiveness is connected with the measures of the implementation level of tasks set for marketing activities. Referring to the two approaches in formulating tasks for marketing, it can be concluded that although they are dealing with varying degrees of difficulty in measuring the level of implementation of these tasks, measurement is possible (even in the case of a holistic approach to marketing activities). It is a matter of intense study and research for the best measures of assessment. However, in relation to the measurement of the degree of implementation of tasks within the different types of marketing activities, there are many such evaluation metrics used quite commonly. Activities, tasks and effects (measured degree of tasks implementation) that describe the essence of marketing effectiveness are shown in Figure 2.

Figure 2 | Concept of marketing effectiveness



Source: author's own interpretation.

Marketing efficiency

The problem of marketing efficiency requires taking into consideration two key elements: effects of marketing activities and their costs. The effects of marketing activities means the measured level of aligned task realization. Because it is possible to differentiate two types of effects, final (direct) effects of marketing and indirect (intermediate) effects, it is also important to differentiate two categories of costs: total marketing costs and costs of specific marketing activities.

Costs of marketing activities cover all costs connected with preparing and executing marketing activities such as marketing research, using marketing instruments, planning, organizing, implementing and controlling marketing activities (Wrzosek, 2005).

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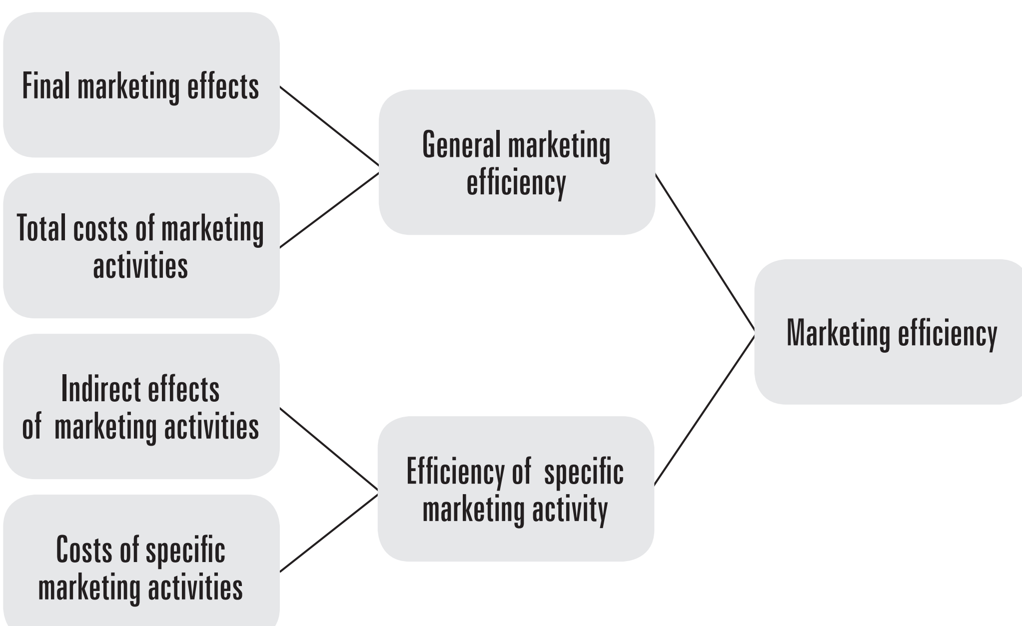
The problem of identification of total costs related to marketing activities is complicated because they are spent in different enterprise departments (not only in the marketing department if that department exists). Due to this, part of the expenditures for marketing is expressed by marketing costs, part as the selling costs and part as some other costs. So identification of the total marketing costs is more complicated. Some firms make significant efforts for creating subsequent systems of accounting information. Such systems enable more precise measurement of marketing costs.

In the case of outsourcing marketing activities, the problems of cost identification are much simpler. Costs of marketing research, advertising or sponsorship costs and costs of product modification or rebranding are usually represented in a company accounting system.

Costs and effects identification enable the evaluation of marketing efficiency. Marketing efficiency (from an economic point of view) is expressed by the difference between marketing effects and costs or by the quotient of effects and costs. If one takes into consideration the final (direct) marketing effects and the total costs of marketing activities, one has to talk about general marketing efficiency. By taking into consideration the indirect effects of marketing activities with the costs reflected those activities, one could evaluate efficiency of a particular activity, for example efficiency of sales promotion or channel of distribution. Typical indirect effects of marketing activities are improving brand image, increase of brand unaided recall, increase of customer satisfaction and loyalty, increase of new product introduction and product availability (see: Garbarski, 2008, p. 97–98). This concept of marketing efficiency is presented in Figure 3.

Figure 3 | Concept of marketing efficiency



Source: author's own interpretation.

Marketing productivity

The word "productive" in common language is often used as a meaning of those activities that produce satisfactory results, increase benefits, are useful and so on. In a strict economic sense, productivity means "quantities of production gains from one unit of a production factor used for this purpose" (Hall and Taylor, 1997). Among many production factors, for example tangible assets, energy, materials and raw materials, in economic analysis, work is considered the most often. So usually productivity is tied with work efficiency, also described in economic literature as work productivity. "Work productivity means the number of goods produced by an employee in a time unit"(Czarny and Rapacki, 2002). The average productivity is characterized in a similar way. It is measured by production quantities for one employee (compare: Nasiłowski, 1996, s. 90).

Considering the concept of productivity in the marketing area, one could pay attention to the simplest meaning of marketing activities usefulness and increases of specific benefits for the enterprise. In this sense, one can also examine non-productive marketing activities, which don't create benefits for the enterprise

The benefits of marketing activities should be considered in the process of realizing enterprise goals. Traditionally for many years, enterprise goals were presented (and still are presented) in such categories as profit, sales volume (or in equivalent categories, for example, profitability and market share). On the turn of XX and XXI century, the point of focus shifted toward value issues. Many authors now give special attention to the concept of firm value and derived concepts, for example, value for shareholders and value for stakeholders. These are dominant contemporary concepts in the field of business functioning.

A very interesting approach to business goals was recently presented by M.E. Porter and M.R. Kramer. In their opinions, business was perceived for many years all over the world as the culprit for economic, social and ecological problems. Firms gained their good results from costs paid by bigger societies. From this point of view, changes in the traditional approach to value creation are required. Instead of short term maximization of financial effects, a shared-value principle is proposed. Shared-value proposal is connected with this kind of economic value creation, which in the same time creates social value related to society needs and problems (Porter and Kramer, 2011). "The idea of shared value is connected with procedures and operational practices which increase firm competitiveness and in the same time have positive impact on economic and social conditions of people life in the area of firm functioning" (Porter and Kramer, 2011).

In such conditions, the problem of marketing productivity should be perceived in the context of using marketing in attaining enterprise goals (required level of profit, sales volume or company value). Achieving these goals by the enterprise requires different assets. Assets usually could be understood as all means that are at the enterprise's disposal at any moment. Normally they cover fixed assets (tangible assets, financial assets, intangible assets) and current assets (inventory, account receivables, short-term securities, cash).

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In the last few years, new attempts have occurred to broaden and deepen the category of nonmaterial values. As the result, a new concept of intellectual capital was formulated. It covers human capital (for example, know-how, level of education, professional qualifications, knowledge and skills, professional predispositions, entrepreneurship, innovativeness); customer capital (for example, customer loyalty, brand awareness, channels of distribution); and organizational capital that consists intellectual properties (for example, patents, licenses, copyrights, trademarks, company logo) and infrastructural assets (for example, organizational culture, information system, financial relations) (Dzinkowski, 2000). It is worth underlining that many components of intellectual capital create a new category of assets, often defined as marketing assets. The main components of marketing assets are customer assets, customer loyalty, brand strength, relationships with trade partners and so on. Many of these assets expressed as so called "relationship assets". They are related to acquired and maintained relations (contacts) with intermediaries, suppliers and customers. Those relations are presented in Figure 4.

Figure 4 | Concept of marketing productivity

Source: author's own interpretation.

The problem of value created by marketing for the organization (enterprise) isn't too often analyzed in the literature. Also, the limited scope and size of this article doesn't allow an intensive discussion. So the author's point of view is mainly presented above. In this concept, the expectations toward marketing and values created by marketing are expressed by marketing performance. In turn, marketing performance can be perceived in the three dimensions of marketing effectiveness, marketing efficiency and marketing productivity.

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