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# Marketing

## Chartered Institute of Internal Auditors

This guide will help you conduct a review of your organisation's marketing function. It looks at the strategic importance of marketing and the activities that fall under the marketing banner, whether they drive sales in a profit making organisation or underpin services in the not-for-profit and public sectors. There is also a brief review of potential risks.

What is marketing?  
How does marketing work?  
Why is marketing important?  
Operational marketing risks and responses  
Marketing and internal audit  
Internal audit's consultancy role  
Internal audit's assurance role  
Assurance of key marketing channels

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### What is marketing?

The Chartered Institute of Marketing (CIM) provides the following definition:

'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.'

Strategically, marketing is the discipline which drives the organisation to understand the fast changing external business environment, it also identifies the internal change that is necessary to retain or gain competitive advantage and achieve business objectives. Its role is to be a champion of change.

CIM explains that marketing is more than sales and advertising it is about putting the customer first by getting the right product or service to them when they need it.

As the definition indicates, this requires understanding customer wants, needs and desires and to match, or even exceed them in delivery.

At an operational level, successful marketing begins to help an organisation answer a number of basic questions:

- What products and services are we going to deliver?
- How much are we going to charge?
- Who will provide products and service?
- Where and how do we promote them?

Marketing can therefore embrace a wide range of activities and these are often referred to as the

'extended marketing mix' or 7Ps as summarised in the following diagram:



(Click the diagram to expand it)

## How does marketing work?

Organisations approach the marketing mix in different ways depending on their circumstances and objectives. Therefore it is likely that people in the marketing department or with 'marketing' in their job title will have quite different roles and responsibilities. This can be confusing so we have tried to relate the objectives associated with the 7Ps to activities and possible roles, as shown below.

### 1. To develop products and services that people need and want.

Activities:

Customer profiling and feedback, competitor analysis, research, design, development, testing.

Possible roles:

- Market researcher
- Customer analyst
- Researcher and developer

- Product designer
- Buyer/purchasing officer

## **2. To increase awareness and perception of the organisation and its products and services through promotion.**

Activities:

- Branding management
- Advertising
- Customer communication
- Relationship management

Possible roles:

- Public relations manager
- Tele and E-marketing officer
- Designers
- Direct /database marketing managers

## **3. To offer products and services at a price that people are willing to pay.**

Activities:

- Product costing
- Pricing strategies
- Budget management
- Control

Possible role:

- Cost accountant

## **4. To increase competitiveness and quality through informed and motivated people.**

Activities:

- Service excellence
- Customer service
- Standard setting
- Training and development
- Internal communications

Possible roles:

- Pre and after sales staff
- Complaint handling manager
- Quality controllers
- Supervisors and mentors

## **5. To place products and services so they are accessible to customers and clients.**

Activities:

Retailing, mail order, internet site management,

Possible roles

- Relationship and account manager
- Sales and store outlets managers
- Web page manager

## **6. To ensure that processes are efficient and effective.**

Activities:

Logistics, inventory and stock distribution. Performance monitoring, trend analysis

Possible roles:

- Warehousing and distribution manager
- Inventory and stock control

## **7. To demonstrate through physical evidence that the organisation can be trusted.**

Activities:

Customer recruitment and retention process

Possible roles:

- Facilities management
- Market strategists and planners, print buyers, store merchandisers

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## **Why is marketing important?**

These objectives and activities begin to explain how organisations spend large sums of money on marketing and show the influence that marketing has on performance. Good and bad marketing will have a significant impact on profit and the organisation's reputation.

One of the effects of marketing can be seen in an organisation's financial statements expressed as an intangible asset described as 'goodwill' or negative goodwill'.

Marketing is equally important in the public sector. For example, in 2006 the NHS issued a new marketing code that focused attention on patients. While this has not been without controversy, those in favour argue that it has helped to change the orientation of the NHS away from a process or operations approach, to one that places patients at the centre of its activities.

The wide range of activities embraced by marketing requires a team effort. This means managing risk is the responsibility of everyone involved in delivering the marketing strategy.

The marketing strategy is an important starting point for anyone looking to understand priorities and risks.

Each of the 7Ps could quite easily generate a set of its own risks and exploring what these look like in different sectors and industries is beyond the scope and capabilities of this document. However we have tried to highlight a key risk in each area of the 7Ps as a starting point to encourage further research.

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## **Operational marketing risks and responses**

### **1. Product or service fail to satisfy customer demand or requirements.**

#### **Potential impact**

- Lost opportunities resulting in poor sales results and reduced profit

#### **Possible response**

- Communication between product designers, advertising experts and other key stakeholders to determine best options for sales
- Metrics obtained from previous campaigns influence future decisions

### **2. A marketing campaign includes an offer or promotion that results in an excessively high response rate beyond the capabilities of the organisation.**

#### **Potential impact**

- Organisation unable to deliver on service promises, damaging reputation and brand
- Promotion/offer is too costly for organisation leading to financial loss

#### **Possible response**

- Mitigate through capacity planning meetings with operational areas and sign-off of promotion according to governance processes
- Market research and benchmarking to remain competitive but aligned to industry

### **3. Promotion of a product or service breach regulations and codes of conduct.**

#### **Potential impact**

- Sanctions from regulatory bodies such as the FSA or Information Commissioner's Office resulting in financial loss through fines or right to trade removed
- Reputational damage resulting from breaches of advertising codes

#### **Possible response**

- Training of staff to be aware of regulation, particularly regulatory conditions in other countries

- where organisation trades internationally
- Liaison with legal and compliance functions to be aware of forthcoming regulation and to sign-off promotional material
- PR management of any incident showing a pro-active response

#### **4. The price set for a product or service is too high or too low.**

##### **Potential impact**

- Lost sales to cheaper competitors
- Financial loss where cost of providing a product or service exceeds income generated by it

##### **Possible response**

- Competitor market research
- Close working relationships with financial experts for understanding costs
- Senior sign-off of pricing decisions

#### **5. Service delivery by the organisation's people does not meet customer expectation.**

##### **Potential impact**

- Customer complaints and compensation
- Reputational damage and media comment
- Loss of repeat business
- Induction and staff training

##### **Possible response**

- Supervision and mentoring
- Rewards and incentives
- Investors in people accreditation

#### **6. Placement of product or service fails to reach the target market.**

##### **Potential impact**

- Poor sales results and reduced profit
- Customer is not aware of how your organisation differs from others

##### **Possible response**

- Presentation of packaging, staff uniforms, logos and brand.
- Development of a unique selling point (USP) that runs through all promotions to create continuity

#### **7. Product or service fails to reach its markets due to process or logistical problems.**

##### **Potential impact**

- Lost income as throughput / volumes forecast cannot be achieved
- Innovation is stifled as offerings are created with the limitations of systems and processes in mind

### **Possible response**

- Development of strategy that considers capacity and capability in addition to new markets and innovation
- Continual improvement initiatives by operational managers
- Investment in new technology
- Incentivise and reward for employees

## **8. There is no physical evidence of success or otherwise of marketing activity.**

### **Potential impact**

- Organisation is not able to direct spend towards most successful media, resulting in efficiency and financial loss.
- Appropriateness of budget cannot be understood and may lead to under-performance of business.

### **Possible response**

- Use of metrics, such as Return on Investment, Cost per Sale, Cost per Click etc prepared by an independent team and reported to appropriately senior employees.
- Only robust data sources are used for metrics, e.g. internet monitoring tools, call volume data on dedicated numbers, application rates.

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## **Marketing and internal audit**

We have tried to show that marketing is a critical business function. The scale of marketing activities and expenditure, the nature of risks and the use of agencies and consultants all drive the need for assurance.

The difficulty is knowing where, when and how to allocate internal audit time, particularly if marketing activity has not been audited before. Some additional factors that can make internal audit planning in relation to marketing more difficult are:

1. Many organisations do not have a 'marketing department'. Marketing activity may be dispersed across the organisation, appearing in different places under different names, such as 'relationship management' or 'communications'.
2. Marketing professionals may be unfamiliar with the role and responsibilities of internal audit and may regard internal audit attention as unwarranted interference.
3. Marketing is often regarded as a "soft" area where many of the key risks might not seem susceptible to normal audit techniques.

A good place for internal auditors to start would be to develop a better understanding of the strategic business drivers and subsequent reporting metrics within marketing. Conduct research into how marketing is structured and operates with an understanding of who does what. In doing so answer

the following questions:

1. What are the key marketing priorities, objectives and risks?
2. What are their plans for the short, medium and long term?
3. How is marketing structured, including outsourcing arrangements?
4. Who are the key agencies, consultants and suppliers?
5. What is the annual budget and key performance indicators for marketing?
6. Have there been marketing problems and issues in the past?

A more consultative and advisory style of auditing may be required to help embed the value of internal audit to the marketing operation.

Internal auditors should market internal audit to the marketing professionals by explaining the value of internal audit, by discussing the way internal audit can help them do a better job and by outlining how internal audit can be a catalyst for change.

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## Internal audit's consultancy role

Internal auditors can support marketing in a number of ways:

### 1. Facilitating or taking part in risk workshops

This could include advising upon the application of the organisations process for identifying, evaluating and treating risks - to the marketing operations as a whole or a specific marketing campaign. In this way internal audit can act as a critical friend by ensuring that all risks are fully explored and assessed with an appropriate response. At a later stage internal audit can provide assurance that actions and controls have been implemented effectively.

### 2. Helping marketing managers set up and perform their own audits

This could include a methodology for reviewing the robust and realistic nature of marketing plans, an approach for assessing the effectiveness of external agents or a process for ensuring that departments and subsidiaries follow procedures laid down by marketing.

### 3. Helping marketing managers establish a process for monitoring and reviewing the progress of campaign management

Internal audit's knowledge and involvement in project auditing can provide valuable experience that is transferrable to marketing campaigns. This might include the formulation of suitable metric such as Cost Per Sale (CPS), Cost Per Click (CPC) or Return on Investment (ROI).

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## Internal audit's assurance role

Developing a working relationship with marketing professionals will hopefully build understanding and mutual respect, so that assurance work feels collaborative and supportive of marketing objectives.

Internal auditors should approach each engagement plan with a fresh view. Where previous audit programmes and reports exist, these can be used to provide useful background and some repeatable tests. However, each engagement should start with a new examination of the current risks, priorities and business processes.

When it comes to marketing there are basically two types of assurance related to specific subject areas and campaigns.

### **1. Subject based assurance**

This includes the following topics that can be separate engagements or part of a combined review:

- Like many activities effective marketing relies upon clarity of purpose. So from a governance aspect internal audit can provide an objective view upon whether marketing strategies are aligned to the organisation's wider business plan, the extent to which decision makers such as the board review marketing issues and the adequacy of policies and procedures.
- Communication and coordination are also vital to marketing success. A review of how roles are linked, such as those identified earlier, would help to achieve consistency and performance across the organisation. Such a review might incorporate the way metrics and balance scorecard indicators are related to outcomes.
- Marketing activities rely upon a broad base of data, not just for analysis and trends but for monitoring performance and reporting. Knowing that data is complete, accurate, reliable and valid is very important and internal audit can provide a valuable service by reviewing the underlying processes that generates data. For example an internal audit of calls coming into a call centre found that calls terminated by customers did not form part of measuring waiting times, thus distorting performance figures.
- Marketing risks identify non-compliance with legal and regulatory requirements as something that could seriously damage the organisations reputation. Internal audit is in a position to independently assess the effectiveness of policies and procedures in place that prevent this from happening.
- Many organisations rely upon agents and consultants to support their marketing operations but it is important to do this in a controlled way to ensure value for money. Internal audit can provide assurance that there is an efficient and transparent selection process, formulation of effective contracts and performance review.
- Finally, income and expenditure projections associated with marketing can be substantial and quite often subject to change. Internal audit are in a position to challenge assumptions built into budgets and express an opinion upon the effectiveness of financial management.

The exact nature and priority of these subject based reviews will be influenced by the organisation's marketing risks so internal audit priorities will differ from one organisation to another.

### **2. Project based assurance**

Providing assurance with regard to a specific marketing campaign requires a different approach, which is similar to the audit of projects.

For instance, find out what the campaign is about, who is running it, understand the nature of the risks and determine who, if anyone, is providing assurance. This will enable the internal auditor to consider and agree the scope and level of assurance and consultancy services with management, which might include:

- Compliance with policies, procedures and controls.
- The effectiveness of risk management procedures and risk mitigation.
- The adequacy and effectiveness of controls built into operations.
- Ongoing financial management and viability of the campaign.
- The reliability that can be placed upon assurance.

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## Assurance of key marketing channels

In addition, assurance can be provided around the key marketing channels.

### Product marketing

What mechanisms are in place to ensure marketers liaise with business areas affected by the campaign (e.g. product developers and call centres), so that the approach can match capacity of the organisation to deliver? Look for:

- Minutes of capacity meetings, appropriate attendees and actions taken.
- Forecasts based on a reliable source, complete and accurate.
- Sign-off mechanisms gaining agreement from stakeholders.

Are contingency arrangements in place, should forecast business volumes be dramatically higher or lower than predicted, and are these reasonable? Look for:

- Documented plans, priority in the business impact analysis and whether plans have been tested.
- Discussion of business levels at capacity meetings and invocation of plans when thresholds have been met.

Is it clear who the product is aimed at? What research have product design decisions been based upon? Review:

- Information sources and whether they are from a reliable source, independently prepared.
- Do managers continually track and monitor success of the campaign as the product is marketed and make timely adjustments to plans as a result?

### Advertising

- Are there sign-off gateways at key stages, is this evidenced and retained?
- Are sign-off roles and responsibilities clearly documented? (e.g. where legal/compliance sign-off should be obtained, when key business partners should be involved).
- Sample some campaigns to assess the effectiveness of key control gateways.
- Review controls around how the campaign is targeted. Where it is aimed at existing customers are there mechanisms to ensure compliance with regulation around mailing/telephone preferences and not contacting customers where this would cause detriment to the company (such as an ongoing dispute)?
- If agencies are used for advertising see notes below on outsourcing.

### **Literature and design**

- Look for version control and retention of signed off documents.
- Look for evidence that legal and regulatory standards have been assessed and met. If you have the relevant expertise in house you may also wish to form an opinion on this.
- Consider whether outsourcing takes place at this stage.

### **Direct marketing**

- See the customer analytics section below and determine controls around data requests. Are they formalised with service level agreements in place? Is sign-off required? Are they specific to the campaign needs?
- Have regulations around marketing to existing customers been considered?
- Look for evidence around quality control, e.g. proof reading of letters/door drops.
- Ensure that there is version control and evidence of sign off.
- Have monitoring metrics been built into the design of the campaign?

### **e-Marketing**

- Understand how the organisation's internet is hosted and determine whether reliance can be placed on audits in this area.
- Determine whether the e-Marketing suite is Brochure-ware or an Online Store and adapt testing accordingly (for an online store security measures are very important and an IT Auditor should be consulted).
- Look for controls in the build of the site in the same way as for literature, there should be sign-off of the content, regulatory compliance and brand considerations (sign-off may be electronic but should be retained).
- Are internet best practice principles being followed? E.g. is the "3-clicks- to- anywhere" practice adopted, is the site Search Engine optimised?
- Are disability discrimination points considered such as ability to change text size or colour or how text readers operate (some only read across the screen so tables are problematic)?
- Is the site mobile technology enabled?
- Are campaign monitoring metrics (clicks per mille, source of entry to site, navigation routes through site) built into the design and reported on regularly (there are a number of company's selling this service).

### **Customer analytics**

- Consideration should be given to the general IT controls around the Marketing database, including its security, back-up, disaster recovery and maintenance.

- Is the system fully supported? Are end user computing spreadsheets and databases in operation, if so are these subject to expected controls? Dedicated management information tools will typically build in audit trails and prevent manipulation of underlying data, but Excel spreadsheets are prone to formula/macro error and cell deletion. End User systems should be tested annually to ensure macros still operate as intended.
- How is the data extracted and prepared? Are wider considerations such as no-mailing flags and deceased flags included?
- Consider management information controls, data extracted independently from those who entered it, data extracted raw and stored unmanipulated with a second working copy taken for analysis, documented procedures or practices for report creation.

### **Brand**

- Look for engagement with Senior Executives to determine what the overall direction of the brand should be.
- Obtain evidence of workshops/focus groups/other research to determine how the company is perceived or the impact of new ideas.
- Determine whether internal brand is also promoted so that the staff are advocates of the image the organisation wishes to present.
- Ensure there is evidence of version control and sign-off of key documents.
- Ensure the Brand Team is on the distribution list for literature sign-off so that consistency is promoted.

### **Public relations**

It maybe useful to split testing into proactive and reactive public relations.

#### **Proactive:**

- Look for evidence that the department seeks opportunities to promote the organisation's messages or brand e.g. by commenting on generic media stories putting the organisation in a positive light (e.g. government release homelessness figures so a charity for the homeless would make comment in the press and highlight the need for funding).
- Has the organisation commissioned surveys of their own to release to the press?
- Corporate Responsibility team may also sit here to promote the ethics and 'green' stance of the organisation. Look for evidence that any claims are based on facts and data.

#### **Reactive:**

- Look to see whether mechanisms are in place for reactive situations, e.g. bad publicity. Typically a crisis team and a quick sign-off process for press releases. Also it should be clear who has responsibility for dealing with the press. All of this should be documented and possibly cross-linked to the Business Continuity Plan.

- There should be links with the Internal Marketing team to ensure messages to staff are managed.

### **General controls**

- You should continue to look for quality controls and sign-off processes for all materials released from the organisation.

### **Internal marketing/internal communication**

- Look for quality controls and sign-off of information released to staff, regardless of the media.
- Where an intranet is used determine who has access and whether this is with read-only or update permissions so that the integrity of the message can be preserved.
- Health and safety and discrimination regulation considered during staff days and workshops.
- Look for links to other areas of Marketing, particularly brand.
- Look for controls around presenting the correct message to staff, e.g. sign-off from the message sponsor (could be Human Resources for example regarding the annual pay review).