

# **The role of marketingcontrolling in the organization and in the distribution network**

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## **Abstract**

Nowadays, the ever-changing, turbulent environment increasingly requires the performance measurement, monitoring, prior planning and controlling at company level, which are critical to the success of companies. Controlling as a result-oriented management, which means regulation, direction and supervision, is essential for the efficient operation of a company. Its role has grown in the face of intensely changing market conditions, which nowadays interweaves every aspects of business. Controlling, which is designed to control a number of distinct areas (financial, accounting, sales, manufacturing, sales, R&D), is critical to the effective operation of organizations.

The main purpose of this article is to present the importance of marketing controlling in the distribution channel chain, which is significantly different from other areas of corporate controlling. While controlling alone is strongly financial in nature, marketing controlling has psychographic measurable and less measurable elements. Our study describes the basics, tasks and tools of marketing controlling based on international and domestic scientific articles. Each of the processed literature supports the controlling elements that play a key role in the competitive performance of businesses and perform different functions as operating areas.

The importance of marketing controlling, which greatly influences the profitability and competitiveness performance of companies, is attempted to be substantiated by the results obtained in the laboratory R&D market based primarily on 'soft' factors. The analytical laboratory market is characterized by a narrow and low number of specialized segments of micro, small and medium-sized enterprises active in the SME sector. Naturally, the conceptual scope and extent of this study do not permit all the possible issues to be examined from every aspects, thus it will be endeavored to point out merely the most relevant considerations.

**Keywords:** marketingcontrolling, marketing elements, marketorientation, distribution network

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## 1. Introduction

The definition of controlling may have different content in different regions of the world. There are two main approaches to interpreting controlling, the Anglo-Saxon and Germanic approaches. According to the Anglo-Saxon approach, planning and controlling are an integral art of management, where the use of a controlling system ensures an efficient allocation of resources. According to the German model, controlling is a set of tools, which includes the following tasks in order to be successful: planning, controlling and creating the right flow of information for management decision-making.

Weber and Schäffer (2006) distinguish three dominant types of marketing controlling definitions:

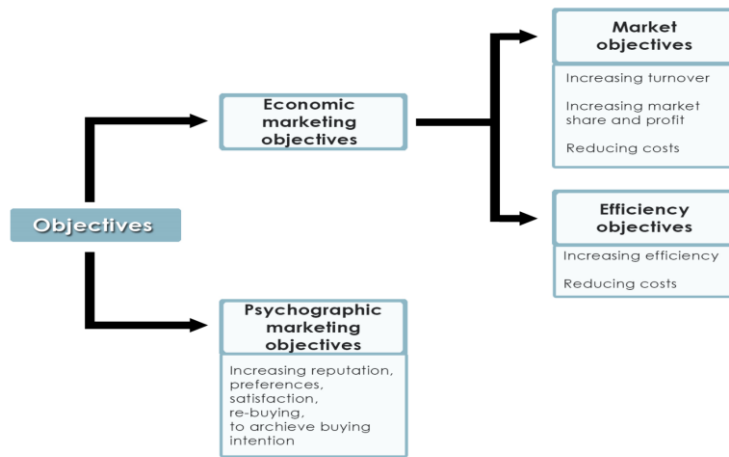
- Marketing controlling is treated as the core of the information assurance function (Reichmann (1997), Köhler (1998), Jenner (1998)).
- Marketingcontrolling is understood as a subdivision of market-oriented business management, which ensures consistent management and goal-orientation of the company (Meffert (1998), Weber/Schäffer (2005)).
- The central function of marketing control is the coordination of the subsystems of market-oriented business management. Coordination concerns the planning, control and information system (Kiener (1980), Horváth (1986), Küpper (1997)).

### *1.1. Marketing controlling system*

The main objective of our research is to examine the marketing controlling system in the distribution chain, which includes all of the above mentioned corporate controlling systems. Business competition and the acceleration of innovation technology created in recent years have awakened enterprise management's demand to have a structured information system that provides a solid basis for efficient decision making. The measurement of the effectiveness of the marketing controlling system is the most difficult to define in terms of the distinct areas of the enterprise. Constructing an efficient marketing-controlling system needs well-defined objectives, such as

- Economic marketing goals
  1. Market objectives (increasing turnover, market share, profit margin, reducing cost)
  2. Efficiency objectives (increasing efficiency, reducing cost)
- Psychographic marketing goals (increasing reputation, preferences, satisfaction)

**Figure 1. Marketing controlling objectives**



Source: own edition based on N. Gaál, 2007, Theoretical Background of Marketing Controlling

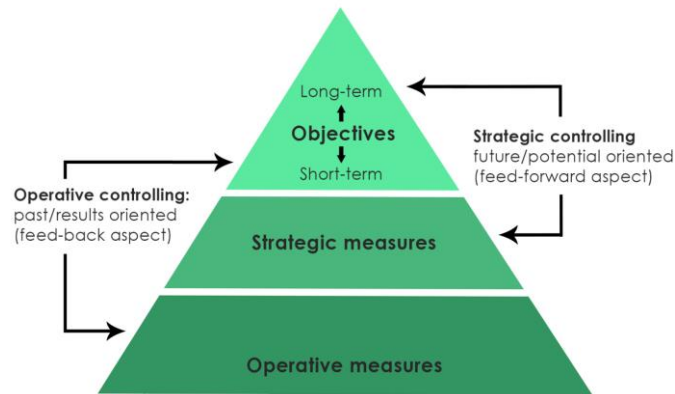
The marketing controlling system is part of the organizational controlling system, where psychographic aspects are much more presented than in any other controlling systems. While controlling is in itself a result-oriented management, where collected external and internal data form the basis for enterprise decision-making after evaluation. Marketing means market-oriented management where sales decisions are determined by market value. Marketing controlling must resolve the contradiction between these two concepts.

Marketing controlling system has no generally accepted format that can be used by any organization. Its role is influenced by factors of different weights (market dynamism, business sectors and organizational goals). Its main tasks are primarily to provide continuous information on market - and technological change, followed by strategic and operational planning, using marketing mix effectively. At the end of the process, a review is required as part of an audit that provides a comprehensive review of the strategic business units' marketing objectives, processes and strategy. In conclusion, full coordination of the supported and promoted projects in the form of consultancy is essential.

### ***1.2. Operative and strategic marketing controlling***

The marketing control system can be divided into two main subsystems, operational and strategic marketing control. The operative marketing-control system builds on short-term, existing results, while the strategic marketing-control system builds on future goal (Gaál, 2007).

**Figure 2. Strategic- and operative marketing controlling**

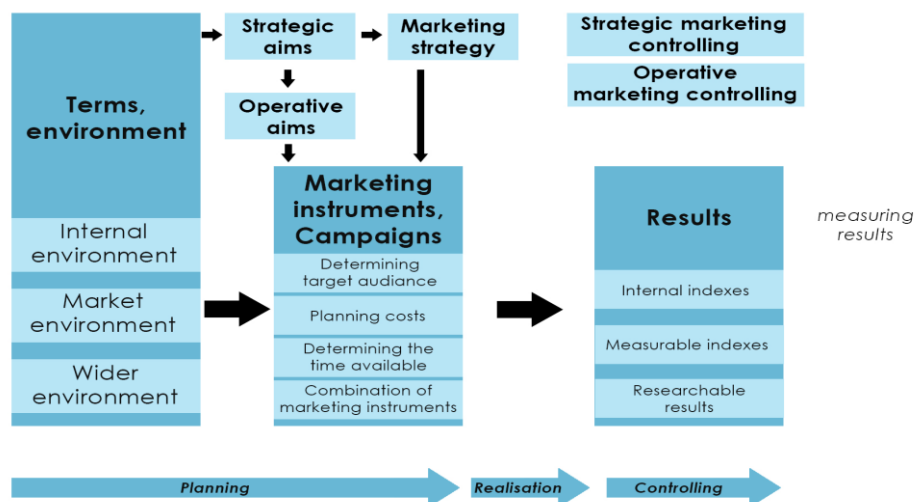


Source: own edition based on N. Gaál, 2007, Theoretical Background of Marketing Controlling

The following table summarizes the key differences between the two subsystems from a management perspective. The main difference lies in the discrepancy of the time frame and the examined time interval. Coordinating strategic and operational marketing-control systems is essential for a company that strives for efficiency. Operational Marketing Controlling examines the operational results already achieved. Strategic marketing controlling is a useful tool for forecasting future results.

Accelerating the pace of change, turbulence, globalization of international markets has led to intensified market competition and increased risk factors, particularly in sales and purchasing, which have resulted in higher marketing costs. For a long time, corporate executives did not have a sufficiently effective sales support system. Developing a marketing-controlling system has made decision-making mechanisms easier for management. The model provides the foundation for corporate marketing effectiveness for market-oriented management in the face of ever-changing economic conditions, resulting in a measurable, reduced marketing spend in the long run.

**Figure 3. Methodical model of marketing controlling system**



Source: own edition based on N. Gaál, 2007, Theoretical Background of Marketing Controlling

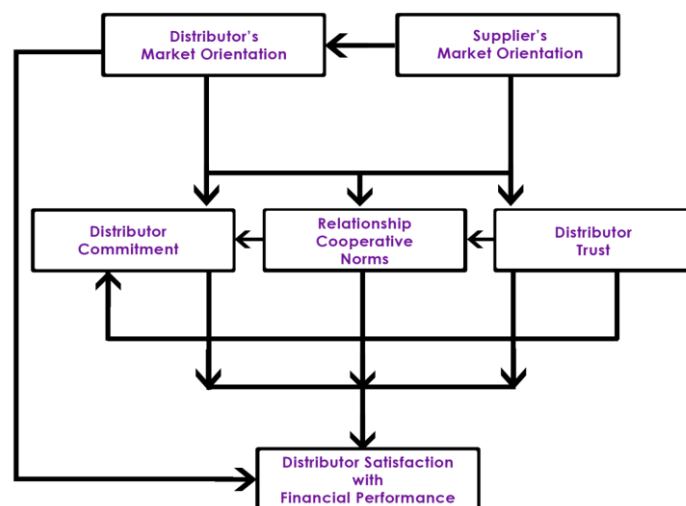
Increasing competition due to the globalization of the 21st century has led to ever-changing market conditions in which companies have been forced to build rational distribution channels in order to increase efficiency and gain market presence. Effective cooperation between channel partners is a prerequisite for successful market participation. A key element for more successful sales are the proportion of investment to be shared between channel partners and the appropriate selection of a local distributor (Arnold, 2000). These factors strongly influence the available profitability in terms of cost effectiveness. The specificity of the product imposes different conditions on the distribution network. Distribution of products requiring special expertise (eg. laboratory instrument) limits the scope for market expansion and representation. Effective cooperation between partners is greatly facilitated by the conclusion of exclusive trading contract terms. Stronger cooperation with suppliers leads to a higher level of commitment and support, which presupposes the integration of supplier marketing control into the marketing control activities of the distributor partner. Higher level distribution of the product across multiple market segments greatly reduces the risk for the manufacturing company and creates synergies in the market.

Controlling, as one of the most important managerial tools, has a key role in the distribution management process. Distribution Controlling consists of a number of steps that include the supplier's goals to be achieved, identifying the facts through continuous monitoring of the representatives' activities, analyzing expected performance differences, planning the measurement of achieved results, setting new targets, and controlling activities.

### 1.3 Impact of supplier market orientation on distributor market orientation and channel partner relationships, with particular reference to the laboratory market

The early publication of Siguawin (1998) and co workers was the first that highlights the direct and indirect effects of market orientation among channel partners. Global competition and mature markets in developed countries have created intensifying internal competition for their channel partners. As a result of competitive pressure, suppliers have invested less and less in the traditional sales channel and increasingly invested in distribution channels. The most viable strategy for suppressing intra-channel tensions against external environmental threats from global competition is adapting market-oriented behavior. Numerous studies confirm that the use of market-oriented behavior has a positive effect on profitability, employee attitudes and sales person orientation. American research is one of the first empirical studies to investigate the interaction between market orientation and other channels in the relationship between supplier and distributor dyadic. The study outlines a model of market-oriented hypothetical relationships between channel partners and distributor perceptions of trust, collaboration norms, commitment, performance commitment in a supplier-representative partnership.

**Figure 4. hypothetical relationships between channel partners**



Source: own edition, based on Siguaw et al., 1998

The hypothetical model assumes a positive impact of the manufacturer's market orientation on the distributor. Reference group theory is used to examine the level of support. Channel members share similar norms and values. The reference group has two functions. One is the normative function, which motivates the participants in the group to achieve the set performance and goal, which may be rewarded or punished depending on the performance

achieved. The second, the comparative function, serves as a standard point of reference by which a person can evaluate himself or herself or others.

Research results have shown that the stronger the supplier's market orientation, the more positive the impact on the distributor's confidence, cooperation standards, commitment, satisfaction and, last but not least, overall financial performance. According to Smeltzer (1997) market orientation of the supplier is likely to increase the distributor's trust, which helps sharing information and maintain open communication as well as responsiveness to customer needs. Distributor trust has been indicated by Wilson (1995) as a 'fundamental relationship model building block', which requires credibility and benevolence. Credibility is compromised of the belief that a trading partner is expert and reliable in conducting transactions effectively, while benevolence is based on the beneficial "intentions and motives" of one partner for the other (Ganesan, 1994).

The socio-economic changes of the last decade require companies to adapt to constantly changing circumstances and keep up with the most advanced technologies. Many companies were unable to meet the requirements of business turbulence, weakening their market presence, which in many cases led to acquisitions and mergers by other capital-intensive companies. Organizations need to be flexible in responding to changes in the marketplace and act as learning organizations to maintain their market position. This poses new challenges for domestic distributors. The introduction and application of marketing controlling provides an opportunity to increase competitiveness.

## **2. Methods**

Small domestic companies active in the market of analytical chemistry laboratories, representing international manufacturers, mainly come from the SME sector. Domestic lab distributors serve a highly specific, highly demanding, professional-based market segment, operation on confidential term. Currently, there are 70-80 relevant laboratory equipment companies in the scientific market in Hungary, which strongly supports research and development.

The authors investigated the effectiveness of marketing controlling through questionnaire survey and in-depth interview methods. The existence, direction, and strength of the relationship between confidential data and information obtained in the study were examined by analysis of variance and regression statistical procedure. The research was conducted in the summer of 2019 with about 40 companies trading laboratory instruments, using a five-stage Likert-scale questionnaire. In addition to quantitative indicators, the questionnaire contains a

large number of qualitative indicators, which examined the manufacturer-distributor market orientation, the strength of cooperation with foreign production partners, the degree of distributor commitment, the degree of trust in the relationship, the conflict management and the efficiency of information exchange. The authors also conducted in-person interviews with more than 20% of the companies, highlighting the broader research objective.

The research proceeds from the following hypothesis.

**H1:** *Companies with a strategic and strong inter-company relationship and decades of contractual relationship use the strategic marketing controlling elements more effectively.*

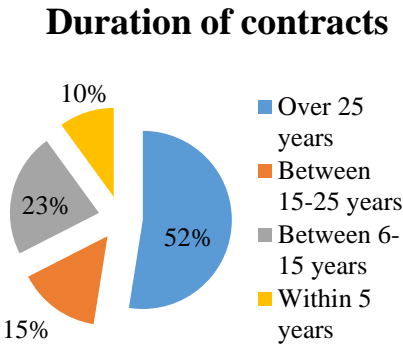
**H2:** *All the Examined Marketingcontrolling Soft Elements,- such as collaboration level, trust level, conflict management, information exchange and ditributor commitment, - influence evenly in a positive extent the company's performance.*

The authors conducted an analysis of the marketing controlling elements on the company performance using the following statistical methods. We analyse the first hypothesis (H1) by descriptive statistics, taken the mean mainly into consideration, and test the second hypothesis (H2) by analysis of variance (ANOVA), which shows whether positive relationship exist among independent variables on dependent variables examined. Regression analysis is used to explore causal-effect.

**3. Results**

As a result, we can state that 65% of the companies surveyed have a strong or strategic relationship with their manufacturing partner. Contractual relationships can last up to 25 years, which represents a high level of distributor collaboration.

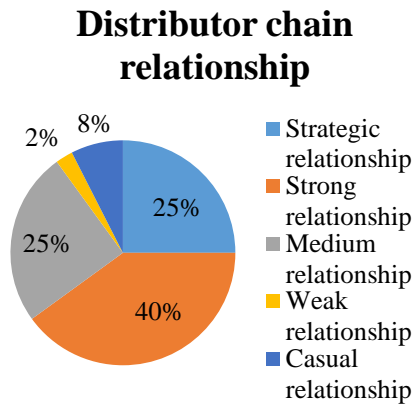
**Figure 5. Duration of contracts**



Source: own edition based own primer research



**Figure 6. Distributor chain relationship**



Source: own edition based own primer research

According to the results of the research, the elements of marketing controlling are applied most effectively by the distributors who have several decades of exclusive contracts with their foreign manufacturers and therefore have a strategic or strong relationship between them.

**Table 3. The importance of marketing controlling elements due to collaboration time lengths**

	Over 25 yrs	16-25 yrs	6-15yrs	within 5 yrs	Mean
Collaboration level	4,9	4,6	3,2	2,5	<b>3,8</b>
Trust level	4,8	4,2	3,4	2,4	<b>3,7</b>
Conflict management	4,3	3,8	3	2,25	<b>3,3375</b>
Information exchange	4,8	4,3	3,7	2,8	<b>3,9</b>
Distributor Commitment	4,38	3,66	3,11	2,25	<b>3,35</b>
<b>Mean</b>	<b>4,64</b>	<b>4,11</b>	<b>3,28</b>	<b>2,44</b>	

Source: own edition based own primer research

**Table 3. The importance of marketing controlling elements per relationship level**

	Strategic relationship	Strong relationship	Medium relationship	Weak relationship	Casual relationship	Mean
Collaboration level	5	4,60	4,20	2,90	2,50	<b>3,84</b>
Trust level	4,9	4,50	4,00	2,40	2,00	<b>3,56</b>
Conflict management	4,3	4,00	3,70	3,00	2,00	<b>3,4</b>
Information exchange	5	4,70	4,00	3,00	2,00	<b>3,74</b>
Distributor Commitment	4,6	4,00	3,50	3,00	2,00	<b>3,42</b>
<b>Mean</b>	<b>4,76</b>	<b>4,36</b>	<b>3,88</b>	<b>2,86</b>	<b>2,10</b>	

Source: own edition based own primer research

In terms of the contractual relationship, the strongest marketing controlling element is collaboration and information exchange, while the weakest one is conflict management among laboratory instrument dealers. In the case of inter-company relationships similar results are shown with slightly different weight among the 'soft', qualitative marketing controlling elements. Collaboration was also of great value, as was the strength of the exchange of information, with a bit lower result for trust level, as we have experienced by the contractual relationship.

The results of Tables 2 and 3 show that the 'soft' factors of marketing control are effectively applied in long-term contractual and high-level relationships, so H1 Hypothesis is accepted (Means: 4,64; 4,76; 4,11; 4,36). Companies with a strategic and strong inter-company

relationship and decades of contractual relationship use the strategic marketing controlling elements more effectively.

Variance analysis was carried out to test the second hypothesis (H2), where the quantitative variable is considered to be dependent(s) and the qualitative variable is considered to be independent. Cause effect relationship was explored among variables by regression analysis.

The following variables were included in the analysis:

**Dependent variable**

Return on Sales (ROS)  
Performance  
Growth (Market share)

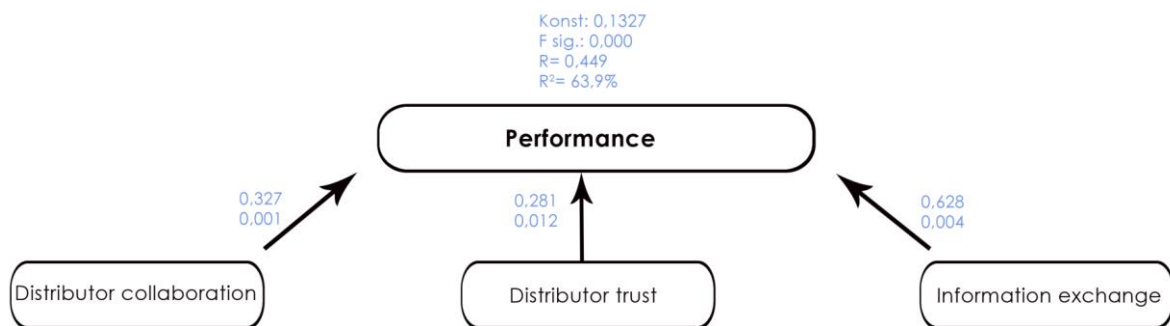
**Independent variables**

Distributors commitment  
Collaboration  
Conflict level  
Trust  
Information exchange

Company performance, as the dependent variable, can be significantly expressed by the following independent variables measured by the questionnaire using the following regression equation. Distributor commitment and conflict management (sig. 0,119; 0,312) do not significantly affect company performance. Given the values in Table 5., these variables were excluded from the model.

$$y_{performance} = 0,137 + 0,327 \cdot \beta_{distributor\ collaboration} + 0,281 \cdot \beta_{distributor\ trust} + 0,628 \cdot \beta_{information\ exchange}$$

**Table 8. Significant elements effecting company’s performance**



Source: own edition based own primer research

A unit increase in distributor engagement increases the company’s performance value by 0.327, distributor confidence increases the enterprise’s performance by 0.281, and information exchange increases by 0.628. The three variables collectively determine the value of power at 63.9%, while the other variables, which account for power at 36.1%, depend on factors outside the model. Thus only three factors influence the company’s performance, but not with the same ratio, so H2 is not acceptable. The five factors are not all influencing the performance, only three of them do on different level.

#### **4. Recommendations and Discussions**

All in all, as globalization intensifies in the 21st century, suppliers are increasingly seeking to build an international distribution channel, giving up their traditional distribution chains. A key role in channel partner relationship and effectiveness research is attributed to the marketing controlling system, whose two subsystems, strategic and operational marketing controlling, greatly support the effective decision-making mechanism of management. However, market and product specificities as well as economic factors require different sales channel planning. Research results from processed international publications extrapolate the positive impact of supplier market orientation on distributor confidence, satisfaction, commitment and, not least, perceptions of partner collaboration standards, substantially adding to the emerging stream of literature on the importance of adopting a market orientation, which are reflected in increasing financial performance. Supplier high support further strengthen channel ties and improve downstream customer orientation (Skinner et al., 1992).

Our primary research focuses exclusively on a narrow, specialized segment of the laboratory instrument distribution market. This market is a very hard-to-access, confidential segment supporting innovation R&D. The research has shown that the effective use of certain qualitative indicators and soft factors in marketing controlling can lead to higher profitability for micro and small business distributors in the SME sector, especially for those companies having longer-term, decades contractual – and inter-company relationship with their manufacturers. We have experienced similar results analysing qualitative marketing controlling elements, implementing statistical methods (ANOVA, Linear Regression) carried out in SPSS software. The examined corporate performance shows a significant relationship with the marketing controlling index, although conflict management is still quite undeveloped among channel partners, which has to be strengthening in the future. Laboratory distributors should strive for closer, higher levels of collaboration and the effective use of controlling tools for higher performance, as well as focusing more efficiently on information exchange and distributor trust, which already influence performance in a great amount.

The purpose of this study is to present in a brief analysis the most important aspects based on marketing ‘soft’ elements influencing enterprises’ performance. In the future, this survey has to be extended to get more data and more accurate conclusions, which is one of the main targets of the authors.

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