

On the Effectiveness of Marketing Planning

J. Scott Armstrong

The Wharton School, University of Pennsylvania, Philadelphia, PA

Managers are often told that formal planning helps. It is useful to examine whether this is good advice. Thus, I applaud this effort to study marketing planning in New Zealand. Nevertheless, I find it difficult to accept the conclusions drawn by the authors of "Marketing Planning in New Zealand" (MPNZ). I am concerned with the definition of marketing planning, the criteria, and the design of the study.

Definition of Marketing Planning

For the primary results, MPNZ allowed the respondent to define marketing planning. Thus, different definitions of planning are being employed. This is a serious fault because some planning activities are likely to be detrimental. For example, evidence suggests that trying to beat the competitors tends to harm performance (Axelrod 1984, Kohn 1986). This was a major aspect of the planning done by MPNZ firms. Given the procedures used by the formal planners in MPNZ, a negative relationship between planning and performance is not surprising. On the other hand, traditional approaches to planning, such as explicit approaches to goal-setting, generation of alternative strategies (along with contingency plans), formal evaluation of alternatives, monitoring of results, and gaining commitment from stakeholders have been found to be positively related to performance. Unfortunately, few firms use these traditional approaches (Armstrong and Reibstein 1985).

A useful aspect of MPNZ is that *it did provide one definition of formal planning*: the "extent to which the firm used planning aids." They listed five aids (in their Table 5). Of these, I would predict benefits from all except BCG, which would be negatively related to performance (Armstrong and Brodie 1989). BCG was seldom used, however. Using this definition of formal planning, planning aids had a slight tendency to be related to better performance.

Criteria

As a criterion, gross profit margin at the time of planning should be replaced by a measure of return on capital over a long period subsequent to the planning. To its credit, MPNZ did not rely on a single criterion. The use of "self-assessed performance" supported the results that had been obtained by using gross margins.

Design of the Study

The authors of MPNZ used survey research to obtain information about the planning procedures and the performance of a sample of firms. This is the most common of the designs used to study the effectiveness of planning. Survey procedures and the sample size rate well in comparison to prior studies. The survey does, however, look modest in light of the recent cross-sectional study by Capon, Farley and Hulbert (1988). Nevertheless, as with most prior studies, MPNZ did not obtain enough information on what planning process each firm used, what situation each firm faced, and what happened to all key stakeholder groups in each firm. This information is vital if we are to be able to advise firms on proper planning processes. It is also important because evidence suggests that some planning processes are helpful, some do not matter, and some are harmful.

Cross-sectional surveys of firms are subject to biases (e.g., does planning improve effectiveness, or does effectiveness produce profits that are used to hire planners?). Alternative research procedures should be used. An ideal procedure would be to conduct a field experiment to examine the results achieved by firms that adopt formal planning in comparison with the results achieved by a comparable control group. To date, only one experimental field study has been published (Van de Ven 1980). Laboratory experiments would also be helpful to build on the relevant literature on organizational behavior. For example, teams of subjects could be asked to make marketing

decisions for a sample of actual but disguised situations. Some subjects could be instructed in the use of formal planning procedures while others would receive no instruction. The quality of the resulting decisions could then be compared. A more complete discussion of alternative designs is provided in Armstrong and Reibstein (1985).

Conclusions

I recently updated my boxscore of studies on the effectiveness of planning (Armstrong 1989). I found seventeen empirical studies that concluded that formal planning led to better performance, four that showed no effect, and three that showed that formal planning produced poorer results. The results from MPNZ do little to change the weight of the evidence. My conclusion from all of the evidence to date is that traditional formal planning produces better results. Some planning procedures, primarily those related to beating the competitors, yield poorer results.

Hopefully, this study will stimulate further research on what planning procedures improve performance. In particular, experimental and laboratory studies should be conducted. These studies, as well as any additional cross-sectional studies, should include information on the planning processes, the conditions faced by each firm, and the impact of planning on key stakeholders.

References

- Armstrong, J. S. (1989), "Review of corporate strategic planning," Working paper, Wharton School, University of Pennsylvania (forthcoming *Journal of Marketing*)
- Armstrong J. S. and Brodie R. J. (1989), "The value of portfolio planning methods for strategic marketing decisions: Experimental results," working paper available from authors.
- Armstrong, J. S. and Reibstein D. J. (1985) "Evidence on the value of strategic planning in marketing," in Thomas, H. and Gardner, D. (3dw.), *Strategic Marketing and Management*. New York: John Wiley, pp. 73-87.
- Axelrod, R. (1984), *The Evolution of Cooperation*. New York: Basic Books.
- Capon, N., Farley J. U.. and Hulbert, J. M. (1988), *Corporate Strategic Planning*. New York: Columbia University Press.
- Kohn, A. (1986), *No Contest*. Boston: Houghton Mifflin.
- Van de Ven, A. (1980), "Problem solving, planning and innovation, Part 1. Test of the program planning model," *Human Relations*, 33, 711-740.