Chapter XIV
Profit Impact on Marketing Strategy and Brand Management:
Methodological Perspectives

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In developing strategy, both corporate and business unit management need to be able to realistically appraise the level of performance that should be expected for a given business, and to be clear as to what factors explain variations in performance between businesses, and within a business over time. Important guidelines that help address these questions have been developed from the Profit Impact of Market Strategy (PIMS) program[1].

BACKGROUND TO THE PIMS METHODOLOGY

At the heart of the PIMS program is a business unit research database that captures the real-life experiences of over 5,000 businesses. Each business is a division, product line, or profit centre within its parent company, selling a distinct set of products and/or services to an identifiable group of customers, in competition with a well defined set of competitors, for which meaningful separation can be made of revenue, operating costs, investment, and strategic plans. The business's served market is defined as the segment of the total potential market that it is seriously targeting by offering suitable products and/or services and toward which it is making specific marketing efforts. On this basis each business reports, in standardized format, over 300 items of data, much of it for at least four years of operations. ROI is defined as follows: pre-tax after deduction of corporate expenses but prior to interest charges divided by average investment where this is equivalent to the historic net book value of plant and equipment plus working capital (i.e., total assets less current liabilities). Note that four year averages are used for all figures. The information

Table 1. Key- determinants of ROI in the PIMS database

Category of factor	**Impact on R0I as factor increases**
Marketplace standing	Positive
Market share	Positive
Relative market share	Positive
Served market concentration	
Market environment	Positive
Real market growth	Positive
Selling price inflation	Positive
Market differentiation	Negative
Purchase amount immediate customers	Negative
Importance of purchase to end user	
Differentiation from competitors	Positive
Relative product quality	Positive
Relative price	Negative
Relative direct cost	Negative
% Sales new products	Negative
Marketing/sales revenueb	Negative
R&D/sales revenue	
Capital and production structure	Negative
Investment/ sales revenue	Negative
Investment/ value added	Negative
Receivables/ investment	Positive
Fixed capital /investment	Negative
Capacity utilization	Positive
Unionization	Negative
Labor effectiveness*	Positive