

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

IDENTIFY MARKET SEGMENTS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of identifying market segments. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Marketing strategies consider changes in customer needs and other environmental factors.
- B. Management identifies customers and customer segments.
- C. Management identifies market product needs.
- D. Marketing strategies are realistic and implemented effectively.
- E. Sales and marketing goals are met.
- F. Management and appropriate employees are given the information they need to understand who the company's customers are and what they need and want.

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Effectiveness and efficiency of operations

A. Marketing strategies consider changes in customer needs and other environmental factors.

Business risks

- The company's marketing strategies will not reflect changes in the environment.
- The company's marketing activities will not be effective because they will be based on outdated information.

Control practices

1. Retain marketing personnel who are experienced in the company's industry.
2. Promote active membership of the company's marketing personnel in industry, trade, or professional associations.
3. Monitor legal and regulatory initiatives that may affect the company.
4. Establish cross-functional communication processes within the organization to ensure relevant information reaches marketing personnel on a timely basis.
5. Define the company's market segments clearly, including the product and service attributes required by each segment.
6. Analyze economic, customer, and industry trends.
7. Explore alternative strategies for responding to significant changes in environmental factors.

B. Management identifies customers and customer segments.

Business risks

- The company will base its strategies on inaccurate, untimely, or unavailable information regarding pricing, products, advertising, or promotions.
- The company will become unresponsive to its customers and markets.
- The company will lose existing customers as well as sales opportunities with potential customers.

Control practices

1. Gather and analyze customer information regularly, including demographics and purchase histories.
2. Develop and update customer profiles as necessary so they remain current.
3. Segment customers in the smallest groupings possible by shared needs and wants to facilitate marketing efforts.
4. Track information on lost or prospective customers to the extent possible.

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C. Management identifies market product needs.

Business risks

- The company's existing products will become obsolete or experience lower demand.
- The company will operate with inadequate or inaccurate information regarding competitive products or potential new products.
- The company will lack information regarding sales prices and profit margins.

Control practices

1. Conduct market research focusing on identifying and reviewing competitors' products, products under development, and customer needs and expectations.
2. Monitor product sales trends by company and by industry. Monitor profit margins and prices for signs of competitive price pressure.
3. Promote the active membership of company personnel in industry, trade, or professional associations, and use these memberships to network and to identify changes in the competitive environment.
4. Evaluate advertising and promotion effectiveness.
5. Ensure advertising and promotional strategies are related to targeted market segments.

D. Marketing strategies are realistic and implemented effectively.

Business risks

- The sales personnel will implement unrealistic marketing strategies and the company will not realize its strategic goals.
- The company will implement marketing strategies ineffectively and, therefore, salespeople will remain unaware of the primary focus of the company's marketing strategies.

Control practices

1. Establish a process that ensures effective communication between marketing and sales personnel.
2. Establish realistic marketing goals, including reasonable sales quotas, commissions, and other performance measures to ensure marketing strategies are met.

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E. Sales and marketing goals are met.

Business risks

- The company will not meet its strategic goals or maximize overall performance.
- Management will not understand sales and marketing goals.

Control practices

1. Retain qualified and experienced members of the sales staff.
2. Provide product awareness and sales training.
3. Communicate sales goals and marketing strategies to sales personnel on a timely basis.
4. Maintain a database to provide quick and convenient access to current customer information, and train sales people to use the database.
5. Verify the accuracy of customer information in the database periodically.
6. Organize the sales force and align territories in the most efficient manner to allow the customer order-taking process to be simple and responsive to the customer.

F. Management and appropriate employees are given the information they need to understand who the company's customers are and what they need and want.

Business risks

- The company will implement ineffective marketing strategies because management and employees will not understand who their real customers are.
- Management's lack of understanding of customer needs and expectations will lead to marginal customer satisfaction.

Control practices

1. Monitor customer satisfaction with the company's products and services.
2. Communicate appropriate information to all managers and empowered employees to enable them to improve customer focus and align critical business processes with the customer.