

The Basic Operating  
Statement  
MKT 210  
Ted Mitchell

### Cost Based Measure of Performance

- A Operating or Income Statement for Marketing in a Specific Market can be called
- The Basic Statement of Marketing Performance

### Exercise

- Make a Basic Operating Performance Report for the Marketing Manager

### What are The 4 P's of Marketing Management

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- 1) **P**lace (Channels of Distribution)
- Anything to do with the creation of economic place utility, Push Strategy
- 2) **P**roduct (services)
- 3) **P**romotion (Advertising, PR, Direct Marketing, etc. Pull Strategy)
- 4) Selling **P**rice

### Inputs Each Market Each Period

Selling Price	\$90
Advertising	\$1,500,000
Consumer Sales Promotions	\$700,000
Size of Sales Force \$80,000 each	6 salesmen
Dealer Promotions	\$300,000
Share of Total Product Development \$1,800,000	\$600,000
Market Research \$20,000 each	6 reports

### Inputs Converted to Expenses

Selling Price, P	\$90
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$700,000
Size of Sales Force SF \$80,000 ea	\$480,000
Dealer Promotions DP	\$300,000
Share of Product Development	\$600,000
Market Research \$20,000 each	\$120,000

### Key Performance Outputs

Variable cost per unit, V	\$30 per unit
Direct materials, labor, etc.	
Quantity Sold, Q	80,000 units

- Convert the Input Decisions and Output information into a Basic Operating Statement

Selling Price, P	\$90
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$700,000
Size of Sales Force SF \$80,000 ea	\$480,000
Dealer Promotions DP	\$300,000
Share of Product Development	\$600,000
Market Research \$20,000 each	\$120,000
Output: Variable Cost per Unit	\$30
Output: Quantity Sold in units	80,000

### Simple Operating Statement

Quantity sold Q in units	80,000
Revenue = $P \times Q = R$	
Total Variable Cost = $CoGS = V \times Q$	
Gross Profit Margin = $G = R - CoGS$	
Markup on Price $Mp = (P - V) / P$	
Total Promotion Expense, $T = AD + CP + SF + DP$	
Profit after Promotion, $NMC = G - T$	
Research & Development R&D	
Net Profit $Z = NMC - R\&D$	
Return on Sales = $ROS = Z / R$	

### Simple Operating Statement

Quantity sold Q in units	80,000
Revenue = $90 \times Q = R$	7,200,000
Total Variable Cost = $CoGS = 30 \times Q$	2,400,000
Gross Profit Margin = $G = R - CoGS$	4,800,000
Markup on Price $Mp = (90 - 30) / 90$	66.67%
Total Promotion Expense, T $T = AD + CP + SF + DP$	2,980,000
Profit after Promotion, $NMC = G - T$	1,820,000
Research & Development R&D	720,000
Net Profit $Z = NMC - R\&D$	1,100,000
Return on Sales = $ROS = Z / R$	15.28%

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<b>Profit after Promotion, <math>NMC = G - T</math></b>	<b>1,820,000</b>

**Net Marketing Contribution  
or  
Profit after Promotion**  
Not in MKT 210

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Markup on Price Mp =(90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
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Research & Development R&D	720,000
Net Profit Z = NMC -R&D	1,100,000

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Gross Profit Margin = G =R-CoGS	4,800,000
Markup on Price Mp = (90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
<small>T = AD+CP+SF+DP</small>	
Profit after Promotion, NMC= G - T	1,820,000
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R&D	720,000
Net Profit	1,100,000
Return on Sales	15.28%

**Making a Basic Statement**

An In-Class Assignment

Make a Basic Operating Statement From	
Selling Price per unit, P	\$80
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$200,000
Size of Sales Force SF \$80,000 ea	\$800,000
Dealer Promotions DP	\$500,000
Share of Product Development	\$500,000
Market Research \$20,000 each	\$100,000
Output: Units Sold Q	100,000
Output: Variable Cost per Unit V	\$25

Simple Operating Statement	
Quantity sold	
Revenue	
Total Variable Cost	
Gross Profit Margin	
Markup on Price	
Total Promotion Expense,	
Profit after Promotion,	
Research & Development	
Net Profit	
Return on Sales	

Simple Operating Statement	
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Total Promotion Expense, T	
$T = AD + CP + SF + DP$	
Profit after Promotion, $NMC = G - T$	
Research & Development R&D	
Net Profit $Z = NMC - R\&D$	
Return on Sales = $ROS = Z / R$	

Simple Operating Statement	
Quantity sold Q in units	100,000
Revenue = $80 \times Q = R$	8,000,000
Total Variable Cost = $CoGS = 25 \times Q$	2,500,000
Gross Profit Margin = $G = R - CoGS$	5,500,000
Markup on Price $Mp = (80 - 25) / 80$	68.75%
Total Promotion Expense, T	3,000,000
$T = AD + CP + SF + DP$	
Profit after Promotion, $NMC = G - T$	2,500,000
Research & Development R&D	600,000
Net Profit $Z = NMC - R\&D$	1,900,000
Return on Sales = $ROS = Z / R$	23.75%