



ACCOUNTING AND MARKETING PERFORMANCE: USING
FINANCIAL RESULTS

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ABSTRACT

This paper discussed accounting and marketing performance: using financial result. By assessing the influence of accounting to marketing performance management and other areas related to marketing development and to evaluate the relationship and synergies between accounting and marketing with comparative examples, also the issues arising in regards to marketing also pertain accounting with the possible synergies between the two areas are having possible contributions to enterprises in the area of strategic management.

Keywords: *Strategic, Managerial Accounting, Performance, Measurement, Marketing, Accounting,*

Introduction

Competition has become more intense in the world of today, that is why a resourceful company needs value-creation skill, in order to exploit a value opportunity. Marketers must understand what the customer thinks about, wants, does and worried about, in order to craft new customer benefits. Modern marketer must also observe who customers admire, who they interact with and who influences them and what qualities do they see in individuals in order to deliver value to the customers. The company is expected to be

proficient at customer relationship management, internal resources management and business partnership management.

The fact that marketing is an important activity for enterprises has caused an increase in marketing related expenditure. It is thought that a higher level of investment in marketing activities in terms of budgeted amounts will increase the enterprise performance. At this point the question must be raised, has marketing really had a contribution to the enterprise performance and in what way has the return on investment made been felt? (Phillips & Halliday, 2008). In terms of technological and internet development, many new opportunities have been created, necessitating the management of the accounting and marketing performance: using financial results.

Management accounting can be defined as part of the management control systems needed to fulfil management needs in an effective and active way. Management control systems emerging in enterprises include both financial and non-financial performance management topic, including the following functions (Dunkovic, Jurić & Nikolić, 2010).

- A clear statement of strategy, objectives and policies.
- Management control for strategies to be developed and implemented.
- Checks regarding the performance levels of identified responsibilities.

In the light of the above, while formulating management control systems according to the objectives identified, enterprises are required to plan to attain success, prepare and develop strategies and measure effectiveness against goals. The relationship between strategy, a crucial topic for enterprises, and accounting, should consider the market structure changing according to competitive conditions. Moreover, the current accounting approach implemented according to the newly developed strategies will assist to measure the competitive status of the enterprise (Collier, 2006). Another study in the subject area maintains that accounting must be considered in the realm of management strategies. Activity based cost management using conventional accounting methods, as well as current approaches such as target cost systems, customer lifetime value and computer supported measurement techniques must be used to measure the performance of especially customers, suppliers and competitors (Dunkovic et al., 2010).

It is apparent that information and analyses of costing, price, sales volume, cash flow and market share data regarding the enterprise and competitors have increased the importance of accounting processes. We can see that strategies

related to finance and accounting come first within all strategies and that there is a correlation between a sound strategic plan and a strong financial structure. In the following section the relationship between accounting and marketing will be examined in order to identify overlap between the two disciplines and illustrate the importance of accounting for the area of marketing.

Relationship between Marketing and Accounting

Furthermore, marketing strategies have become important in the strategic management approach, also taking an important percentage out of the enterprise cost structure. Stewart (2009) stated that between 20% and 25% of costs are related to marketing activities, while Ceran and İnal (2004) mention that this ratio may be increased to between 50% and 60%. Undoubtedly, the increase of expenditure in marketing and areas related to marketing caused the increase of requirements for information on the subject, revealing once more the importance of cost accounting data in the evaluation of marketing activities and marketing related decisions.

Marketing accounting has emerged as a concept in relation to the situation described above. This concept explains the usage of cost accounting in a market centric fashion in general and is accepted as a component of the modern cost accounting system that has developed in parallel with the advances in the area of accounting (www.accountingtoday.com; Ceran & İnal, 2004).

The basic overlaps between cost accounting and marketing are listed below (Ceran & İnal, 2004).

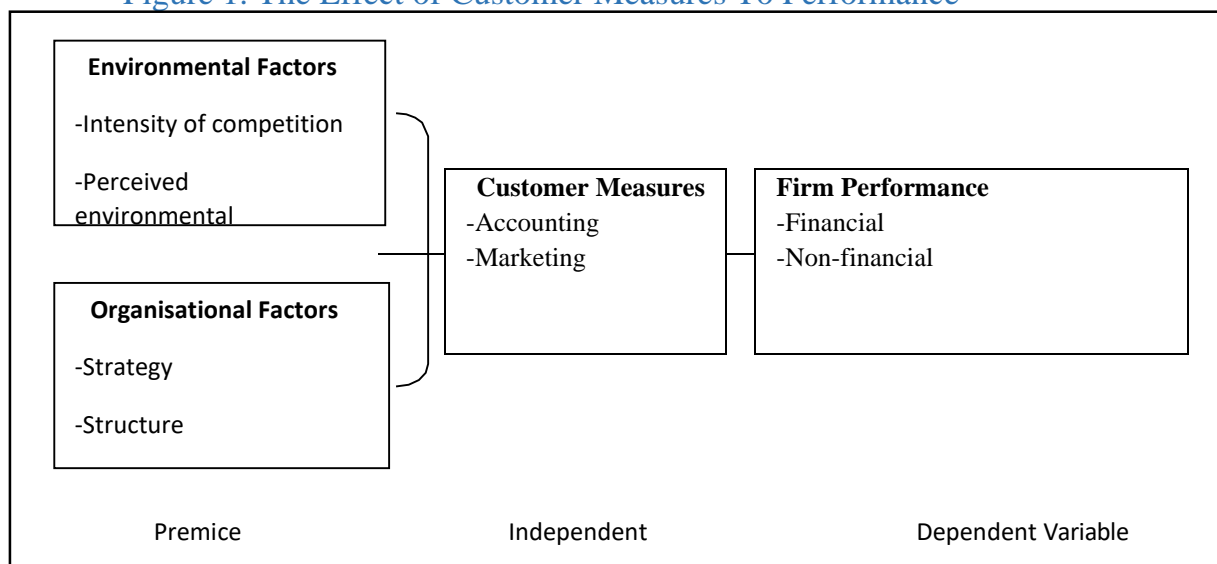
- Goods and services production planning: Under this item we can place break-even point analyses, various ratio analyses pertaining to the product range, methods of packaging and brand accounting.
- Pricing policy: Option development and models for pricing policy identification.
- Promotion policy: The measurement of advertisement effectiveness, budgeting and advertising costing.
- Distribution policy: Logistics, planning and storage related topics.
- The organization heading includes the concepts of marketing cost and accounting.

As explained, marketing overlaps with accounting in terms of products, pricing, promotion, distribution and organization by virtue of its basic

concept. In this framework, providing marketing managers with information regarding the topics mentioned above may lead to positive results for both the enterprise and the managers themselves. On this issue, Kotler (2006) maintains that financial calculations must be emphasised in the context of marketing for marketing activities to be more successful. Furthermore, it has been advanced that a good marketer should also have a good understanding of finance and receives training for professional development purposes (Tek & Dalkılıç, 2011).

Customers should be centric to the planning and strategy development processes for enterprises and techniques used to achieve a competitive advantage should be identified in this context (McManus, 2013). Another concept that must be touched upon in regard to this approach is that of "Customer Accounting". This concept, defined based on the customer centric approach, includes the identification of economic values, measurement, communication and reporting regarding customers and customer groups. Furthermore, this concept provides positive results to the enterprise in terms of performance appraisal. In this context, a study performed regarding applicability in hotel management has elaborated on environmental and enterprise based factors as well as the customer dimension in enterprise performance as below:

Figure 1. The Effect of Customer Measures To Performance



Source: McManus (2013).

It is apparent that the customer information used as the independent variable in enterprise performance must be based on accounting and marketing data. For this reason, the two disciplines must be applied in coordination to create accounting-marketing synergies. In this way the enterprise and environmental factors can be measured according to the customer dimension to identify the effect on enterprise performance. On this subject Phillips and Halliday (2008) have emphasised the importance of establishing synergies between accounting and marketing in achieving multi disciplinary and multifunctional performance measurement. In the following section the relationship between the measurement of marketing performance and the financial information obtained through accounting.

Methodology

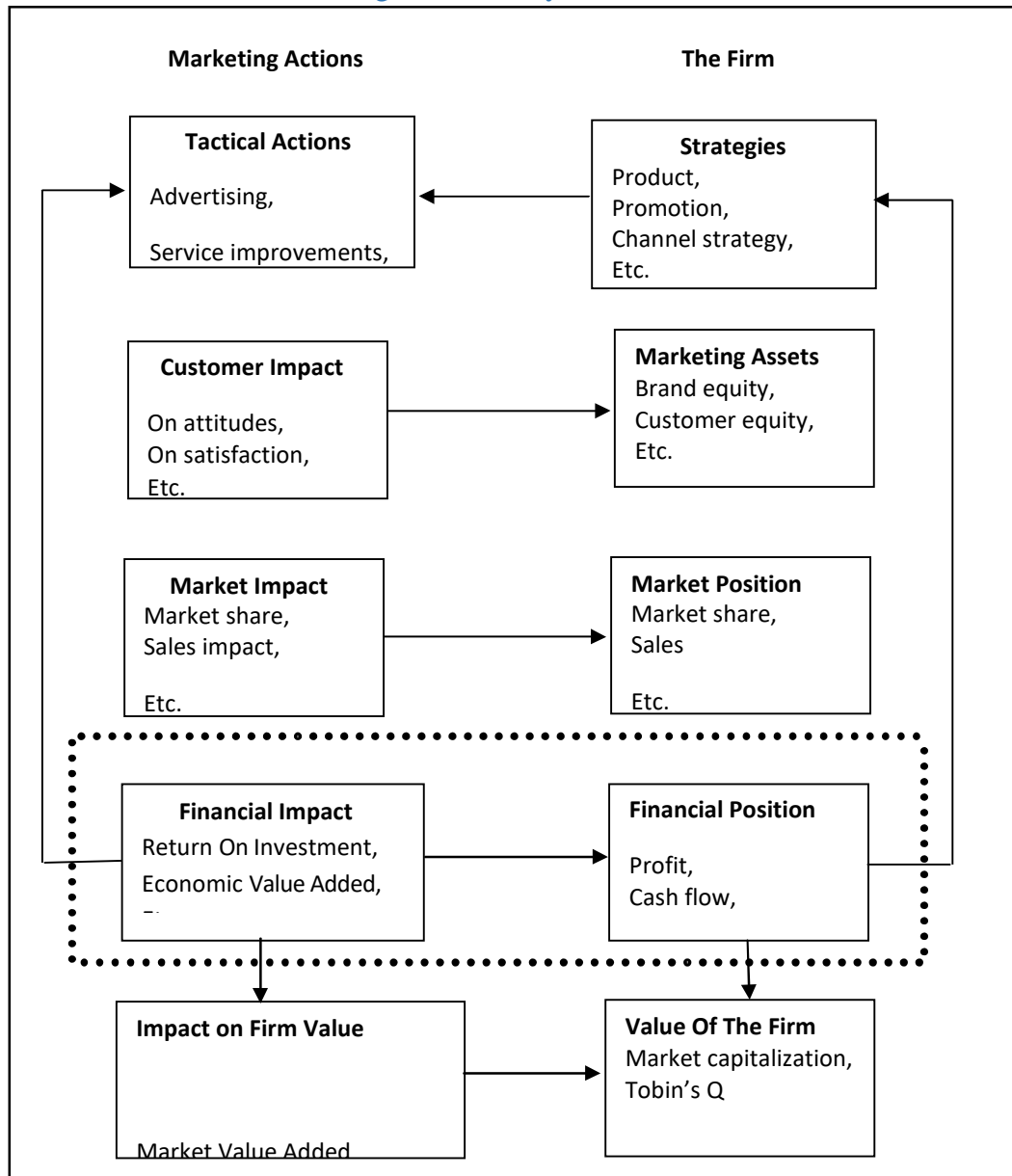
This research work explores primary and secondary sources of materials in sample random which implies accounting and marketing performance, using financial result, data from textbooks, journals, newspapers, magazines, internet and libraries were made use of.

Marketing Performance Measurement and Accounting

Performance measurement is a significant area for enterprises that has emerged in recent years and in terms of marketing, the measurement of returns on investment is crucial. Although marketing experts are debating how calculations should be made, the importance placed on customers has led enterprises to reconsider the value of their intangible assets (Seggie, Cavusgil & Phelan, 2007). The relationship between customer value and enterprise value placed more responsibility on marketing (Ryals, 2008), meaning that for performance measurement purposes non-financial information related to marketing must be converted into financial data (Seggie et al., 2007).

For marketing to be included in enterprise strategic plans, the effect on enterprise performance and company value must be positive (Stewart, 2009). Based on the marketing activities and tactics, company value may only change in relation to primarily customers, the marketplace and financial effects. This relationship has been described by Rust, Ambler, Carpenter, Kumar and Srivastava (2004) as follows.

Figure 2. The Chain of Marketing Productivity



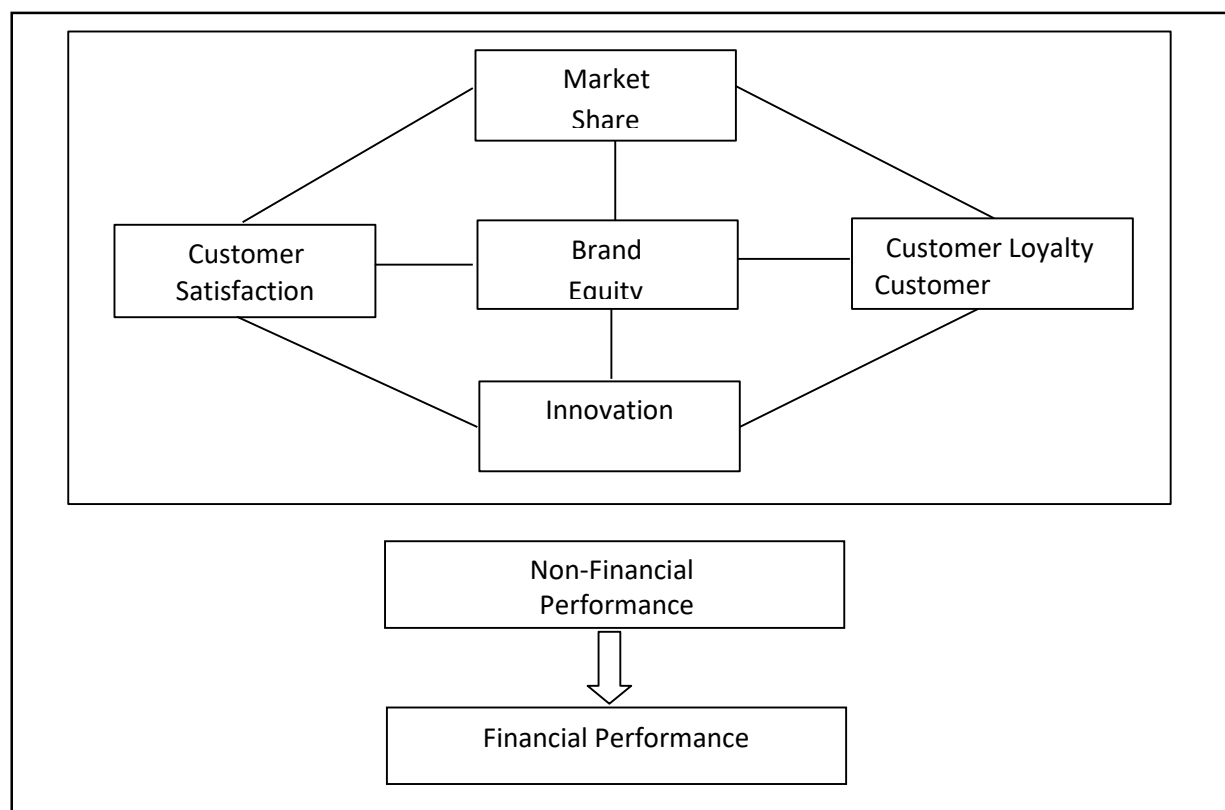
Source: Rust et al. (2004).

Figure 2, illustrates a conceptual framework can be used to evaluate marketing productivity. It can be seen that the start point at the upper right side of figure is the firm strategies, include promotion, product and any other marketing strategy. These lead to marketing actions as advertising campaigns, service improvement efforts to have a marketing impact. The marketing impact and the customer behaviour influences change the market share and sales. After

all the marketing assets have to impact the firms financial position positively as an increase on profit. For this study most useful part of the figure is the “financial impact” and “financial position” because it’s important to be able to understand what the financial impact of expenditures on marketing actions is.

Another author regarding the issue summarized and shows as follows (Gao, 2010); As a result of marketing expenses increased, better performance measurement methods is required. Because a measurement method can provide the link between non financial and financial performance. As illustrated in figure 3, five constructs; market share, customer satisfaction, customer loyalty/retention, brand equity, and innovation create the non-financial performance, and their common effect on financial performance should be examined.

Figure 3. Model for Measuring Marketing Performance



Source: Gao (2010).

Performance measurement has become even more important for marketing, as marketing has started to display the characteristics of being a focus of cost. As with the other departments having an impact on profit or loss, the effect of marketing performance on the enterprise profit/loss has become an area of curiosity. The amount of expenditure made in regard to customers and for marketing purposes and the effect on enterprise performance are significant lines in budget preparation (Shaw & White, 1999).

According to Stewart (2009), the measurement for return on marketing investment must consist of accounting data. In this regard the important metrics for marketing managers are as follows (Tek & Dalkılıç, 2011; Stewart, 2009).

- Sales analyses
- Market share analyses
- The ratio of marketing and sales expenditure to sales
- Financial analyses

A basic understanding of accounting and financial analysis is essential for everyone in marketing how financial measures can be used to monitor marketing operations. In the area of marketing financial analysis have four main functions as financial situation analysis, financial evaluation of alternatives, financial planning and financial control. These are functional areas where accounting information is useful in marketing also there are a variety of methods used in functional areas. Table 1 shows the functional activities associated with marketing financial analysis functions and the sample accounting (financial) methods.

Mintz and Currim (2013) propose a conceptual model that links firm's strategy type of marketing mix activity to marketing and financial metric use to indicate the link to performance of marketing mix activities (Table 2).

Table 1. Marketing Financial Analysis

FUNCTIONAL AREAS WHERE FINANCIAL ANALYSIS IS USEFUL IN MARKETING	SAMPLE FINANCIAL METHODS USED IN FUNCTIONAL AREAS
<p>a) Financial Situation Analysis</p> <ul style="list-style-type: none"> • The study of trends • Analysis of competition (comparative) • Assessment of present financial strengths and limitations 	<ul style="list-style-type: none"> • Ratio analysis • Profit or contribution analysis • Cost and sales analysis
<p>b) Financial evaluation of alternatives</p> <ul style="list-style-type: none"> • Introduce new or delete mature products • Expand the sales force or more advertising • Delete market operation or increase sales fleet • Move into new markets • Built a new silo 	<ul style="list-style-type: none"> • Cost and sales analysis • Break even analysis • Cash flow analysis, profit contribution and projections • Return on investment • Return on capital • Sustainable growth rates
<p>c) Financial planning</p> <ul style="list-style-type: none"> • A new range of products introduction • Sales or cost forecasting • Market liberalization 	<ul style="list-style-type: none"> • Cost and sales forecast • Budgets • Preformed income statement
<p>d) Financial control</p> <ul style="list-style-type: none"> • Mainly keeping plan on course 	<ul style="list-style-type: none"> • Cost and sales forecast • Analysis of variance (actual and budgeted) • Profit performance

Source:

<http://www.fao.org/docrep/W4343E/w4343e02.htm#the%20marketing%20ofinancial%20analysis%20circle>

Table 2. Marketing and Accounting (Financial) Metrics

Marketing – Mix Activity	Marketing Metrics	Accounting (Financial) Metrics
General Metrics	<ul style="list-style-type: none"> • Market share (dollars or units) • Awareness (brand or product) • Satisfaction (brand or product) • Likeability (brand or product) • Preference (brand or product) • Willingness for recommend (brand or product) • Loyalty (brand or product) • Perceived product quality • Consideration set • Total customers • Share of customer wallet • Share of voice 	<ul style="list-style-type: none"> • Net profit • Return on investment • Return on sales • Return on marketing investment • Net present value • Economic value added • Marketing expenditures • Stock prices/stock returns • Tobin's q • Target volume (units or sales) • Customer segment profitability • Customer lifetime value
Traditional Advertising	<ul style="list-style-type: none"> • Impressions • Reach • Recall 	<ul style="list-style-type: none"> • Cost per customer acquired/cost per thousand impressions • Lead generation • Internal rate of return
Internet Advertising	<ul style="list-style-type: none"> • Impressions • Hits/visits/page views • Click-through rate 	<ul style="list-style-type: none"> • Cost per click • Conversion rate • Internal rate of return
Direct to Consumer	<ul style="list-style-type: none"> • Reach • Number of responses by campaign • New customer retention 	<ul style="list-style-type: none"> • Cost per customer acquired • Conversion rate • Lead generation

	rate	
Social Media	<ul style="list-style-type: none"> • Hits/visits/page views • Number of followers/tags • Volume of coverage by media 	<ul style="list-style-type: none"> • Lead generation • Cost per exposure • Total costs
Price Promotions	<ul style="list-style-type: none"> • Impressions • Reach • Trial/repeat volume (or ratio) 	<ul style="list-style-type: none"> • Promotional sales/incremental lift • Redemption rates (e.g., coupons) • Internal rate of return

Pricing	<ul style="list-style-type: none"> • Price premium • Reservation price • Relative price 	<ul style="list-style-type: none"> • Unit margin/margin percentage • Price elasticity • Optimal price
New Product Development	<ul style="list-style-type: none"> • Belief in new product concept • Attitude toward product/brand • Expected annual growth rate 	<ul style="list-style-type: none"> • Expected margin (%) • Level of cannibalization /cannibalization rate
Sales Force	<ul style="list-style-type: none"> • Reach • Number of responses by campaign • New customer retention rate 	<ul style="list-style-type: none"> • Sales potential forecast • Sales force productivity • Sales funnel/sales pipeline
Distribution	<ul style="list-style-type: none"> • Out-of-stock percentage/availability • Strength of channel relationships • Product category volume 	<ul style="list-style-type: none"> • Total inventory/total distributors • Channel margins • Sales per store/stock keeping units
PR / Sponsorship	<ul style="list-style-type: none"> • Volume of coverage by media • Reach • Recall 	<ul style="list-style-type: none"> • Lead generation • Cost per exposure • Total costs

Source: Mintz and Currim (2013).

The authors consider ten marketing-mix decisions as their construct driving metric use: (1) traditional advertising, (2) Internet advertising, (3) direct to consumer, (4) social media, (5) price promotions, (6) pricing, (7) new product development, (8) sales force, (9) distribution, and (10) public relations (PR)/sponsorships then following the literature on the relationship between use of information and decision making. They expect use of metrics when making a marketing-mix decision and the table shows the relationship

between in terms of marketing and financial metrics to describe. Also aids to be associated with perceived performance of the marketing-mix activity, defined as a firm's stated marketing, financial, and overall outcomes relative to a firm's stated objectives.

Conclusions

Marketing, one of the most important topics for companies, appears to be the most dynamic of disciplines. The point reached today is that within the modern marketing approach many methodologies and techniques are utilised. Simultaneously, the fact that marketing has become a focus of investment rather than a cost based activity requires that the return on investment is measured to determine the effect on the performance of the enterprise. Within this framework, the requirement for information is especially emphasised for cost and management accounting. The issues arising in regard to marketing also pertain to accounting, displaying the relationship between marketing and accounting, with the possible synergies between the two areas having possible contributions to enterprises in the area of strategic management.

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