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MANAGING ACCOUNTING AND FINANCIAL ASPECTS OF MARKETING

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ABSTRACT

In marketing management everyday work the emphasis is on development of creative concepts, execution of marketing promotions and choosing of correct channels for communication with target consumers, which depends on a number of factors. Often marketing employees strongly believe that activities such as budgeting related to marketing activities, monitoring of budget spend and calculations of return on marketing investment belong to the scope of accounting and finance. The aim of this paper is to highlight the necessity of improvement of financial literacy of marketing employees, which would enable them to regularly measure marketing efficiency and marketing profitability. Apart from controlling implementation of marketing programs and apart from performing marketing audits, marketing employees also have to monitor company's marketing budget spend in order to make sure there is little deviation from marketing plan and that marketing costs are rational. In negotiations with vendors, they need to analyse cost structure, conditions of invoicing and payment, and when they report to management, they need to perform analyses, generate exact calculations, and also make conclusions based on numerical data and suggestions for future actions. Better understanding of accounting and financial aspects of marketing can improve cooperation of marketing function with other business functions. Determining of contribution of marketing activities to company's financial results and clear reporting of it will make marketing function more credible.

Keywords *marketing budget management; cost allocation; marketing metrics; marketing profitability; marketing function credibility*

1. ACCOUNTING AND FINANCIAL TERMS IN MARKETING

In everyday work of marketing employees the emphasis is on development of creative concepts, execution of marketing promotions and choice of correct form of communication and channels for reaching the target groups of consumers, depending on product lifecycle and the type of business. At the same time, the activities of budgeting, cost tracking, invoicing, calculations of key performance indexes, calculations of profitability and performance effectiveness are rarely considered to be typical marketing tasks. In scientific literature intended for marketing employees a term „profit maximisation“ can often be encountered, in the context of main business goal which should drive the entire marketing strategy, marketing goals, tactics and marketing activities. This term and other similar ones pose a question: How much do marketing experts really understand accounting and finance terms, and processes and aspects which do not belong to the scope of marketing management as their main field of expertise and interest? It can be concluded that among marketing employees, who work at different marketing positions in companies, there is a common misconception of important accounting and financial terms, conceptually and pragmatically. Possible reason for this could be a general lack of interest in accounting and financial terms or a certain level of fear and insecurity in using them, probably due to existing unclarities or misunderstanding of how they should be implemented in everyday tasks of marketing department. Even though the majority of marketing employees have completed formal education in some field of business, this is not always the case. Many of them gained formal education in other branches of social Sciences, Humanities or Art so they may not have the necessary business know-how which they regularly need to be able to effortlessly perform tasks within marketing function. At the same time, the majority of employees in accounting and finance business function have completed formal education such as economics high-school, business school, financial management schools, accounting and/or training programmes, accounting courses, controlling schools, etc. That is why it is so difficult for employees in different functions to „speak the same financial language“, but it would be highly appreciated if efforts in this direction were made. (Stewart, 2006)

Differences in financial literacy of Croatian citizens can be explained by different individual socio-demographic characteristics such as age, sex, educational background, household income, work experience, employment status or the size of the city they live in. According to market research conducted by Vehovec, Rajh and Škreblin Kirbiš in 2015, planning of personal finances in generally approached in a similar way by all Croatian citizens. Less financially literate citizens are people from smaller towns, younger in age, with weaker

educational background, female, with lower income and unemployed. Research shows positive change in financial literacy of Croatian citizens in the past several decades – precisely, in their knowledge, attitudes and behaviour when it comes to personal finances. (Vehovec, Rajh and Škreblin Kirbiš, 2015) Similarly, as when managing family finances, employees in marketing have to know how to effectively manage company's financial funds which they have available for marketing activities of the company's brand. In order for them to be able to do that in the most efficient way possible, they would have to be able to understand accounting and financial terms, logic and processes. The fact is that majority of marketing employees lack accounting know-how, especially young persons with less working experience, who are seldom given needed support in the form of introduction to accounting and financial terms, while at the same time it is expected that they use them regularly. When Marketing managers draft annual marketing plan, they take into account all costs for which there is reasonable possibility they could occur. They carefully make detailed estimates and plans and make sure financial funds for marketing are correctly allocated for each market, for each sales channel and communication channel, for each marketing campaign and for each month of the upcoming year. Many people will say that activities of budgeting and cost reservations do not belong to the domain of marketing function. However, in many small and medium-sized companies there isn't a person in accounting and finance function who would be in charge of these kind of activities and marketing calculations in general. Exceptionally, in foreign companies which do business at Croatian market as subsidiaries for marketing, it is possible to find positions which combine marketing and accounting tasks, considering the entire business of such companies is directed to marketing. Such companies organize in-house educational workshops for marketing employees on the topic of marketing budget analysis, in order to bring to their attention the importance of transparent budgeting, marketing measurement and reporting on marketing, so that they would be able to make optimal business decisions in the upcoming period.

Despite the intention for bringing closer very different standpoints and despite the aim to improved mutual understanding between marketing employees and accounting/finance employees, they will maintain different perceptions, way of working and approach to activities for which they share responsibility. Therefore, different conclusion can be made on the optimal way of organizing the implementation of such business tasks. In marketing function, proactivity and creativity are very important characteristics of each employee because through them Marketing managers ensure that key marketing function goals will be attained. A company which has proactive and creative

marketing employees can regularly launch even better and more interesting products and services. It can reach its customers in the right way, at the right place and time, by using interesting and memorable communication message, with the goal of outrivaling the competition and achieving as high market share as possible. On the other hand, the most important factors in accounting and finance jobs are accuracy, meticulousness, promptness, respecting deadlines, rules, standards and laws, as well as high level of responsibility for business analysis and reports. The similarity of employees in accounting and finance function with employees in marketing function is evident in a number of deadlines which need to be respected, which affect their work, the entire job tasks split and organization of duties within both of these business functions. Deadlines which marketing employees have to respect include deadlines for obtaining offers and cost-estimates from marketing agencies and vendors, deadlines for structuring and producing marketing plans, deadlines for conceptualizing and implementation of promotional campaigns, deadlines for production or adaptation of different types of ads, deadlines for obtaining approvals of media plans and approvals of marketing activities start date, deadlines for delivery and distribution of promotional materials, deadlines for various events management and organization, deadlines for creating budgets in the system, and other. Next to all of these, cooperation with accounting and finance department is a secondary task for marketing experts. The communication issue occurs when they believe their work is done at the moment when they have forwarded vendor invoices to accounting because in their mind after that point all further activities should be done by colleagues in accounting and finance function. It is important to mention that marketing employees are faced with numerous tasks (within the company) and some of them are not their core business, but hold a priority in front of cooperation with accounting. To name a few, marketing employees make joint decisions with sales teams concerning product range, they cooperate with legal department on matters related to laws, contracts and addendums with vendors and subcontractors. They do administrative tasks such as creating purchase request, coordinating purchase orders and vendor offers which they process together with procurement business function. On top of that, marketing employees are requested to provide to accounting and finance function a number of explanations and evidence of realized marketing activities for incoming vendor invoices. It is understandable that the purpose of processing business documentation in a manner as required by accounting and finance is to ensure the transparency of completed marketing activities.

2. MEASURING MARKETING EFFECTIVENESS AND PROFITABILITY

Designing marketing strategy which will motivate customers to buy a certain product, making decisions on optimal communication channel combination, as well as profitability calculations per customers should be based on figures. In order to ensure profitability for the company, customer portfolio has to be analysed in detail and decisions on marketing investment made in a strategic manner. (Beasty, 2007) Often, investment in marketing is seen as „the black hole“ of the company due to insecure return on investment from marketing activities. Because of that, it is not possible to determine what affect do marketing activities actually have on sales increase. In spite of that, Marketing managers of today manage marketing metrics and marketing investment better than before. At the beginning of each calendar year many of them even make reservations budget solely intended for measuring of marketing and determining the effectiveness of marketing activities because by doing so, they ensure credibility of marketing business function of the company. (Marshall, 2007) It is highly recommended that once in a while companies do a critical review of achieved marketing goals and marketing profitability and to examine their market approach strategy. This is done by marketing effectiveness review, regular marketing activities control and analysis, and by marketing plan audit. For Marketing managers and company management, the areas of marketing profitability and marketing effectiveness are the main marketing areas of interest. (Ferrell and Hartline, 2008) A company can learn about the effectiveness of a marketing strategy by analysing marketing costs and by comparing sales results with connected marketing costs and achieved profit margins. By doing this, Marketing managers will be able to allocate available financial funds for future marketing activities in a more adequate way.

2.1. MARKETING METRICS

With the aim of creating total success of the company, marketing effectiveness is estimated by usage of marketing metrics. With „Hard“ marketing metrics being revenue and profit, *Soft*“ marketing metrics are, for an example, brand awareness, number of impressions, Gross rating point (GRP), company ranking at organic search, ad reach, marketing campaign reach, etc. The most important marketing metrics which today's companies use for measuring of marketing effectiveness include: market share, total number of customers, relative perceived quality, relative price, customer retention rate due to brand loyalty, customer satisfaction, customers' complaints, brand awareness, product availability (Hooley et al., 2017), profitability and sales growth. (Faridyahyaie, Faryabi and Noubar, 2012)

Table 1: Some marketing metrics

Relative market share	Product availability	Relative price
Percentual annual growth	Brand awareness	Relative perceived quality
Total sales revenue	Return on investment (ROI)	Number of clicks on online ad
Total number of customers	Return on marketing investment (ROMI)	Number of impressions
Customer retention rate	Return on sales (ROS)	Organic search ranking
Customer satisfaction	Sales growth	Ad reach or campaign reach
Customer complaints	Economic added value	Gross rating point (GRP)

Source: Farris et al. (2014) Metrike marketinga. Konačni vodič kroz mjerenje marketinške izvedbe, drugo izdanje. Wharton School Publishing. Mate d.o.o. Zagreb; 13-20

Profitability in a certain period (year, semester, quarter or month) is usually compared with the profitability achieved in the same reference period in previous year(s). Marketing profitability can be monitored at a particular product level, at a level of a group of products, at a level of a part of product range, at the entire product range level, at a specific marketing campaign level or at a product promotion level. It is measured by calculating the return on investment, which takes into account limited financial funds of the company and is used for determining priorities during budget allocation process. ROI is one of the most important metrics for planning and assessment of marketing activities because other marketing metrics don't follow main business goal of the company and can't be used to ensure making of best decisions. On the other hand, ROI offers greatest advantages to marketing experts because it is in line with primary goal of the company and can be used as a tool in planning and decision-making process. Due to difficulties in ROI measurement, many companies still haven't accepted it as a primary marketing metric. In order for company to be able to measure and plan marketing activities and achieve higher ROI, customer lifetime value is supposed to be longer than the existing one. Additionally, the number of customers gained owing to a certain marketing investment should be, presumably, as high as possible with marketing costs as low as possible. Marketing campaigns which are aimed at increasing of profit per customer or customer retention rate, depend on measuring of customer lifetime value because this metric allows the results to be presented. In order for company to achieve highest possible profit, it has to measure and optimize ROI for all marketing investment activities together. If a company has a goal to achieve the optimal ROI, then it will have to measure and optimize the combination of customer lifetime value, total number of customer and marketing costs. By using ROI analysis and a quality support system, marketing experts will have the opportunity to learn financial terms and aspects in a simple way, develop more effective strategies and achieve better marketing results. (Lenskold, 2002)

3. COOPERATION OF MARKETING FUNCTION WITH ACCOUNTING AND FINANCE FUNCTION

Successful managing of company's marketing budget suggests timely reservation of financial funds for future marketing investments, correct fund allocation into specific marketing activities (aligned with annual marketing and management plan) as well as systematic supervision and monitoring of budget spend dynamics in order to understand potential deviations from the plan, and to prevent them if possible. Economic budget management highlights the need to rationalize marketing costs and savings when making every single decision on engaging a particular supplier for a particular project. By analyzing offers of several possible suppliers, by choosing the most affordable offer for each marketing project and by assessing fair market values, each marketing employee participates in total company's marketing budget management. Many marketing experts who are in charge of budgeting marketing activities at strategic marketing level, already have the necessary financial knowledge. Apart from having to make decisions on correct budget split per sales and communication channels for the upcoming year, for all marketing campaigns, for a single market or a number of markets at which a company's does its business, they also have to decide if they will increase or decrease investment for specific marketing activities comparing to previous year investment. They also include additional, unforeseen costs into budgeting for the upcoming year. In order for marketing experts to be able to have a clear insight of remaining marketing budget at any given moment, they regularly monitor the dynamics of budget spend and bear responsibility for decisions made in regards to the available budget. They have to designate amounts for each marketing activity and try to stick to the plan as much as possible, and at the same time be prepared for potential budget reallocations possibilities from one campaign to another, or from one month to another (Caragher, 2007), if so requested by management. If marketing employees understand the way in which sales data refer to their part of job, they will perceive their role in the business process in an entirely different way. Even though the task of monitoring of percentual revenue increase in comparison to a referent period, usually belongs to employees within the sales function, it is useful for marketing employees to understand that sales revenue increase will also impact the planning of future marketing activities due to cause-effect relationship of available budget within the company and due to a goal for reaching new customers / consumers and the lasting aspiration for achievement of greater market share.

Table 2: Accounting and financial aspects and terms needed within marketing function

Net amount of cost-estimate / offer / purchase request	Opening and closing of marketing budgets	Calculations and correct cost allocation
Gross amount / vendor invoice amount	Open items list	Invoice payment due date
VAT amount calculations and VAT payment exemption	Marketing agencies' retainer fee and commission	Key performance indicators calculations
Service performance date and invoice date	Reinvoicing and commission	ROI analysis
Profit and loss account structure	Profitability calculations	Cost reservations in the system

Source: Author's work

For many activities marketing function and accounting / finance function share responsibility. For an example, areas of shared responsibility include calculations and making sure costs are correctly allocated, supplier invoices, ROI analyses and making important business decisions based on customer profitability data. (Waters, 2005) However, sometimes marketing function employees make unfounded requests from their colleagues in accounting and finance function. Namely, there isn't a clear explanation why tasks such as return on marketing investment calculations and marketing profitability calculations should be „transferred“ to accounting and finance function. Detailed reports, analyses of value of customers for the company and exact calculations of costs and revenue connected to a particular marketing activity should be related to marketing function for sure. Therefore, an increasing number of companies is starting to open „Product Manager“ job positions in the search of employees who will act as intermediaries between accounting and finance function on one side and marketing function on the other side. Beside executing a purposeful analysis of market research results, Product Managers manage product lifecycle, define product prices and manage product range. Except for making predictions of demand dynamics and calculating profitability for each product, they also make decisions on closing of marketing budgets if it will impact profit and loss account in a positive way, and they decide on withdrawing unprofitable products from the market. Luckily, employees at these positions have an understanding of terminology and processes both from marketing domain as well as from accounting and finance domain. This enables them to successfully coordinate all included parties and to clarify possible uncertainties, misunderstandings and potential miscommunication between them.

The way of working in accounting is set as a series of tasks which have to be executed every day, often by systematically and in a predetermined order, including: bookings of bank statements and incoming invoices, issuing of in-

voices, checking of open items and payment of due invoices, reconciliation of financial cards, compensation execution, rebooking of amounts from incorrect accounts to the correct ones, corrections of analytical data in the general ledger. Also, accounting employees are in charge of liquidation of travel expense reports and claims, salaries, fees, reimbursements, inventory checklist and amortization, monthly and yearly accounting closing, annual financial statements, etc. Task split per certain job positions within accounting and financial function is quite clear and there isn't an employee who would be able to perform marketing costs analysis, marketing investment analysis nor other connected calculations and reports. Subsequently, due to the lack of highly needed support for such tasks, marketing employees often develop their own model for tracking and calculation of return on marketing investment. Therefore, conclusions and decisions are often made agreeably with other colleagues from marketing department or based on own professional experience and intuition instead of being based on business analyses and numerical data.

4. CONCLUSION

The issue of calculating specific contribution and revenues achieved as a result of executed marketing activities has often proved to be a stumbling stone and a subject of disagreements between employees of different business functions in a company. In order to improve credibility of marketing function, marketing employees have to be educated on accounting and financial terms, processes and deadlines. It is necessary that they understand them and use this knowledge appropriately because of operational and numerical tasks in marketing which need to be performed in a smooth way. Apart from ensuring better understanding between these two business functions, marketing experts will be able to solve obstacles in everyday work more easily and all the connected processes will function better. Equally as they successfully take care of marketing planning, budgeting and monitoring of marketing budget spend, they ought to embrace measuring of marketing as integral part of marketing function work. Confident working with numbers and figures will enable them to create high-quality marketing activity analysis and marketing budget analysis, as well as calculations of marketing effectiveness and profitability performed within the scope of marketing function. Still in many companies measurement of the effects of marketing campaigns hasn't yet been significantly developed because measurement and quantification of contribution of marketing function is often perceived as a daunting task. In the future, it will be requested from marketing function to provide accurate and wholesome data on marketing return on investment as well as information on the results of future marketing activities which are planned to be reached. It can be expected that marketing function will have to justify high

costs of marketing campaigns and promotions so it will have to develop internal standards for marketing investment measurement. Otherwise, there is a risk that over the course of time marketing function will lose its credibility and that it will be perceived as a tactical function which other business functions will be able to steer as they please. (Stewart, 2006)

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UPRAVLJANJE RAČUNOVODSTVENO - FINANCIJSKIM ASPEKTIMA MARKETINGA

SAŽETAK RADA:

U praksi upravljanja marketingom naglasak je na razvoju kreativnih koncepata, provedbi marketinških promocija i odabiru ispravnih komunikacijskih kanala prema ciljnim potrošačima, u ovisnosti o brojnim čimbenicima. Marketinški djelatnici često svrstavaju u domenu računovodstva i financija aktivnosti budžetiranja vezanog uz marketinške aktivnosti, praćenja potrošnje raspoloživog budžeta ili izračuna povrata na ulaganja u marketing. Cilj ovog rada je skrenuti pozornost na značaj poboljšanja financijske pismenosti zaposlenika u marketingu kako bi bili u mogućnosti redovito mjeriti učinkovitost i profitabilnost marketinga. Osim kontrole izvedbe i revizije marketinških programa, marketinški djelatnici zaduženi su i za nadzor nad potrošnjom ukupnog marketinškog budžeta poduzeća, u cilju ostvarenja što manjeg odstupanja od marketinškog plana i racionalizacije marketinških troškova. U pregovorima s dobavljačima, oni redovito analiziraju strukturu troškova, uvjete fakturiranja i plaćanja, a pri izvještavanju rukovodstvu bave se analizama, generiraju egzaktna kalkulacije, a trebaju i donositi zaključke na temelju brojčanih podataka i davati preporuke za daljnje aktivnosti. Bolje razumijevanje računovodstveno-financijskih aspekata marketinga može unaprijediti suradnju marketinške funkcije s drugim poslovnim funkcijama.

Utvrđivanje doprinosa marketinga financijskim rezultatima poslovanja poduzeća i redovito izvještavanje o njemu može učiniti funkciju marketinga vjerodostojnijom.

Ključne riječi: *upravljanje marketinškim budžetima; alokacija troškova; metrike marketinga; profitabilnost marketinga; vjerodostojnost marketinške funkcije*

