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Financial Dimensions of Marketing

A Source Book

Compiled by

RICHARD M. S. WILSON

University of Sheffield

VOLUME ONE

M

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*This book is dedicated to two
pioneers of marketing controllership:*

To CHARLES H. SEVIN, whose contribution
initially attracted my attention

And to MICHAEL SCHIFF, whose contribution
maintained my interest

CONTENTS

<i>List of Figures</i>		xi
<i>List of Tables</i>		xiii
<i>Foreword</i>	Kenneth Simmonds	xv
<i>Preface</i>		xvii
<i>Acknowledgements</i>		xxi
<i>List of Contributors</i>		xxiii
<i>Biographical Note</i>		xxvii
 <i>SECTION 1 PERSPECTIVES</i>		
1.1 Introduction	R. M. S. Wilson	1
1.2 A Historical Overview	G. L. Harrison	22
 <i>SECTION 2 FRAMEWORK</i>		
2.1 Information Analysis for Marketing Decisions	C. Grönroos	58
2.2 A Profit-Oriented Decision System	L. Winer	66
 <i>SECTION 3 INTERFACE</i>		
3.1 Cultural Lag and Homeostatis	G. A. Field and D. R. L. Gabhart	81
3.2 Modern Marketing and the Accountant	B. Mallen and S. D. Silver	90
3.3 The Staff Controller in PDM	J. L. Livingstone and V. Sathe	103
3.4 Accounting Implications of Marketing Orientation	J. S. Bridges	107
3.5 A Rejoinder to Bridges	N. C. Bain	117

viii Contents

3.6	The Distribution Costing Curriculum	R. T. Hise, S. H. Kratchman, and T. H. Mattheis	122
-----	-------------------------------------	---	-----

SECTION 4 METHODOLOGICAL ISSUES

A. MANAGEMENT CONTROL

4.1	Accounting Approaches to Marketing Control	R. M. S. Wilson	128
4.2	Marketing Audits	E. A. Tirmann	143

B. COST ANALYSIS

4.3	Values and Uses of Distribution Cost Analysis	A. M. A.	156
4.4	Analysis of Marketing Costs	C. H. Sevin	164
4.5	Comparison of Marketing and Factory Cost Analyses	M. Mellman	170
4.6	A Rejoinder to Mellman	R. K. Jaedicke	179
4.7	A Reply to Jaedicke	M. Mellman	184

C. SEGMENTAL ANALYSIS

4.8	Cost and Profitability Analyses	P. Gilmour	189
4.9	New Approaches to Profitability Analysis	F. H. Mossman, P. M. Fischer, and W. J. E. Crissy	203

D. PRICING

4.10	Marketing Costs and Pricing	M. Kjaer-Hansen	214
4.11	An Appraisal of Direct Cost Pricing	R. J. L. Herson and R. S. Hertz	223

E. MERCHANDISE MANAGEMENT ACCOUNTING

4.12	Retail Experiments in Marginal Calculation	P. Heim	235
4.13	The Peanut Seller	Unknown	240

F. COST REDUCTION

4.14	A Rational Approach to Cost Reduction	C. H. Sevin	242
------	---------------------------------------	-------------	-----

G. OUTPUT BUDGETING

4.15	Output Budgeting in Marketing	G. S. C. Wills, M. G. Christopher, and D. W. Walters	248
------	-------------------------------	--	-----

4.16 Program Budgets for Marketing Groups	J. T. Neth	271
---	------------	-----

H. CAPITAL BUDGETING

4.17 Applications of Capital Budgeting in Marketing	R. T. Hise and R. H. Strawser	283
4.18 Does Advertising Belong in the Capital Budget?	J. Dean	294
4.19 View Your Customers as Investments	E. C. Bursk	305

SECTION 5 FUNCTIONAL PROBLEM ISSUES

A. ADVERTISING

5.1 Financial Control of Advertising	D. Britton	313
5.2 Advertising as Investment Expenditure	J. Hutton	329

B. CHANNEL POLICY

5.3 The Accountant and Marketing Channels	R. E. Weigand	335
---	---------------	-----

C. CREDIT MANAGEMENT

5.4 Marginal Analysis of Credit Sales	P. M. Davis	343
5.5 Profitable Credit Control	B. Raven	350
5.6 A Rejoinder to Raven	M. Schiff	364

D. CUSTOMER SERVICING

5.7 The Problem of Small Orders	C. J. Blecke	366
5.8 The Financial Executive and Customer Service	K. F. Slacik	373

E. MARKETING RESEARCH

5.9 Costs and Pricing in Marketing Research	R. Roberts-Miller and F. Teer	383
---	----------------------------------	-----

F. PRODUCT POLICY

5.10 Improved Deletion Decisions	P. M. Worthing	386
----------------------------------	----------------	-----

G. SALES MANAGEMENT

5.11 Salesmen's Compensation and Profits	R. L. Day and P. D. Bennett	400
5.12 ROI in Sales Management	M. Schiff	405

x Contents

SECTION 6 BIBLIOGRAPHY AND INDEXES

Bibliographic Subject Index	415
Bibliography	455
Index of Names	521
Index of Subjects	525

LIST OF TABLES

The first number relates to the main section of the book, the second number to the particular paper within that section, and the final number identifies individual tables.

1.1.1	Perceived power of functions in a brewery	10
2.2.1	10% discount factors	71
2.2.2	Example of a Yes/No decision problem	73
2.2.3	Cash flow analysis of the decision in Table 2.2.2	74
2.2.4	Example of cash flows resulting from alternative price decisions	76
2.2.5	Price decision example: discounted cash flows	77
2.2.6	Example of assumptions pertinent to selection of a marketing channel	78
2.2.7	Example of frequency of occurrence of various prices	79
3.2.1	Expense distribution sheet	96
3.2.2	Margins, distribution costs, and profits by product groups for several territories during one year's operations	99
3.2.3	Product profit statement	100
4.1.1	Gross margins at different sales levels	136
4.1.2	Fixed and variable marketing costs	137
4.1.3	Fixed marketing costs at different sales levels	137
4.1.4	Variable marketing costs at different sales levels	137
4.1.5	Net profits at different sales levels	138
4.2.1	Check-list of major points in the marketing mix	149–51
4.2.2	Bitbak's marketing audit	154–5
4.4.1	Comparative performance of salesmen	166
4.4.2	Comparative cost of salesmen	167
4.4.3	Functional cost groups and bases of allocation to commodities and customers	168

xii List of Figures

4.15.5	The corporate marketing system	257
4.15.6	Selective description of matched activity components in the corporate marketing system	258–60
4.15.7	Perceived risk/information expenditure trade-off analysis	261
4.15.8	Ordinal ranking method for allocation of a mission information budget for a single product	263
4.15.9	Cardinal ranking method for allocation of a mission information budget for a mission product portfolio	264
4.15.10	Hypothetical cost-effectiveness functions	266
4.15.11	Risk-expenditure trade-off curve	270
4.16.1	Components of selling price	274
4.16.2	Manpower allocation worksheet	277
4.16.3	Special budget expenditure worksheet	279
4.16.4	Marketing program budget worksheet	280
5.1.1	A model for controlling advertising expenditure	316
5.1.2	Building-up to an advertising target objective	317–19
5.1.3	Product group share of television advertising expenditure	321
5.1.4	Product group share of press advertising expenditure	322
5.1.5	Monthly expenditure levels for two competing brands	323
5.1.6	Media allocations	324
5.1.7	Index of moving annual total brand shares	325

LIST OF TABLES

The first number relates to the main section of the book, the second number to the particular paper within that section, and the final number identifies individual tables.

1.1.1	Perceived power of functions in a brewery	10
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4.1.1	Gross margins at different sales levels	136
4.1.2	Fixed and variable marketing costs	137
4.1.3	Fixed marketing costs at different sales levels	137
4.1.4	Variable marketing costs at different sales levels	137
4.1.5	Net profits at different sales levels	138
4.2.1	Check-list of major points in the marketing mix	149–51
4.2.2	Bitbak's marketing audit	154–5
4.4.1	Comparative performance of salesmen	166
4.4.2	Comparative cost of salesmen	167
4.4.3	Functional cost groups and bases of allocation to commodities and customers	168

xiv List of Tables

4.8.1	Market segement analysis	193
4.8.2	Net segment margin under the residual income approach	195
4.9.1	Popularity and rank choice of segment type for use in marketing decisions	209
4.9.2	Market segment analysis	210
4.9.3	Net segment margin under the residual income approach	212
4.10.1	Absolute and relative distribution of promotional costs in Denmark in 1963 by type of cost	218
4.12.1	Merchandise management accounting analysis of unfinished furniture	237
4.16.1	Advertising division budget	273
4.17.1	Percentage of marketing decisions in various functional areas for which specific types of capital budgeting methods are utilized	289
4.17.2	Methods utilized to account for the factor of risk	290
4.17.3	Mean average rates-of-return for various functional areas below which projects would not be undertaken	291
4.17.4	Problems encountered when using capital budgeting techniques	291
5.5.1	Cash flow — 90 days' settlement	354
5.5.2	Cash flow — 60 days' settlement	356
5.5.3	Monthly debt analysis	359
5.7.1	Analysis — order size v. sales volume	369
5.7.2	Sales analysis — number of customers v. annual volume	370
5.7.3	Price estimating form	372
5.8.1	Customer service report	381
5.10.1	Chronological contributions	390—3
5.10.2	Product check-lists	399

FOREWORD

MARKETING CONTROL: FROM SOURCES TO CONFLUENCE

The differences between accounting and marketing are fundamental. Accounting builds from analysis of internal cost and financial figures while marketing builds from diagnosis of an external market situation. The essential marketing skill is to identify and evaluate the opportunities for action within the constraints imposed by existing and potential customers and competitors. An important part of this marketing skill is the actual depiction of the market, including the assessment of which characteristics are to be incorporated and omitted. The application of analytical techniques to recorded marketing figures or even to a set of market characteristics would be a poor substitute for marketing diagnosis. The number of potential actions the marketer might consider together with the range of variations possible in customer and competitor behaviour eliminate any guarantee that such an analysis would indicate anything near to a best solution.

A book on the financial dimensions of marketing, then, should not be read as an extension of accountants' skills to one aspect of the field of marketing. Financial dimensions of marketing are quite definitely not just accounting for products and 'downstream' marketing functions. Such a book should be viewed by accountants as a move across to a fundamentally different model.

Many of the implicit assumptions upon which accounting's analysis of financial figures are based must be knowingly cast aside. The traditional orientation of accounting towards analysis and comparison of performance and profitability for fixed periods, for example, is anathema to the marketing diagnostician. The marketing approach holds very clearly that profitability is not altered simply by actions to decrease costs or increase revenue within an accounting period. Marketing views profitability as stemming from the firm's positioning *vis-à-vis* competitors within different market segments and the realisation of a surplus over outgoings at the most appropriate times. Marketing profitability is in this sense quite similar to the traditional economists' definition of profit as the present value of a cash-flow stream.

Proper marketing control must be directed at adjustments of the firm to take account of patterns of demand and competition that do not coincide with accounting periods. It must be built on assessment of the time pattern of demand and probably allow for decay periods as well as growth periods. It must be aware of the value of market share over the expected product life and of the costs of

losing market position. An accounting approach to control that ignored market share, for example, and analysed figures with no recognition of the value built up or lost as a result of changes in market share or market size could be positively misleading.

Another major characteristic of an accounting approach is its selection of producer attributes as the basis of definition of the accounting units. These attributes are usually physical attributes of the product which require differences in production treatment and hence production cost. With these bases of product differentiation determined at some early production stage, accounting tends to follow its analysis right through to the ultimate sale in terms of these units. While not always misleading, such an approach fails to accept that the patterns of customer preferences and competitor positioning are what generally determine the segments of output for which the greatest differences in profitability arise. These segments may be delineated on the basis of attributes which are quite different from those establishing cost differences at a primary production stage. Output directed through one type of distribution outlet, for example, may be potentially more profitable than physically similar output distributed through another type of outlet. Output sold on credit terms likewise might record different profitability than output sold on ordinary account – and always different costs.

Analysis outwards from predetermined accounting units will only give an insight in terms of those units. A modified accounting approach that attempts to cross-analyse output by region, by size of order, by size of customer – and so on, may overcome some of the deficiencies introduced by avoiding marketing diagnosis but such an approach is time-consuming and hit-or-miss.

Marketing control is still in its infancy. Any set of existing papers clearly exhibits this with a bimodal distribution of approaches tending towards either a traditional control orientation or a marketing diagnosis orientation. Somewhere between lies the happy amalgam of the two approaches. The arrival of the inexpensive personal computer, however, will contribute more than any other single factor to its rapid development over the next decade. Whether marketing control emerges as a field in its own right or merges into general management with every manager as his own diagnostician and personal controller – its fundamentals will strike right to the heart of current business rituals. Analysis of internal historical figures without market diagnosis and market diagnosis without attention to the financial implications will both give ground to a new control based firmly on market diagnosis.

KENNETH SIMMONDS

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PREFACE

'It is paradoxical that while many of the most significant financial and accounting activities within any company start with the forecasts of market opportunities, sales volumes, prices and anticipated revenues, the explicit role of accounting and finance in the control of the marketing function itself has been neglected.' (Professor Anthony Hopwood in Vernon (1976), p. 227.)

This volume aims to help in resolving this paradox through its role as a source-book of integrated ideas on the application of financial controls to marketing problems, in the absence of other books giving comprehensive coverage in this important area of management literature.

Increasingly, there is a trend towards an interdisciplinary approach to managerial problem-solving. In essence, this trend stems from a realisation that formal disciplines on the one hand, and managerial functions on the other, cannot exist beneficially in isolation of one another. Thus accountants/financial managers (whether academic or practising) are anxiously endeavouring to learn more about the uses to which the information that they produce will be put. This involves understanding the nature of the decisions that must be made by, for instance, marketing specialists, and the impact of such decisions on the operations of the organisation as a whole.

In the same way, marketing men (both in academic life and in industry or commerce) have begun to appreciate the need for a wider range of skills and awareness in order that they may become more effective. (These skills are in the form of appreciating the behaviour of the marketing function within the overall context of the behaviour of the whole organisation, and also in the form of more specific skills in the area of, for example, financial control.)

In parallel with this increasing interest being shown by specialists in areas that interact with their own fields of specialism, the 'generalists' (e.g. directors, consultants, general managers, teachers and students of business administration) have always had an interest in interdisciplinary studies.

The financial dimensions of marketing is a field that is both developing and poorly-defined: it covers much more than the field of cost accounting, yet less than the field of financial management – although this is only looking at it from the accounting/finance perspective rather than from a marketing perspective. More logically, perhaps, one might seek to define the problems of marketing (i.e. as one defines a 'discipline' in terms of the set of problems with which it is concerned), and the range of problem-solving methods from accounting/financial

management, and see to what extent these overlap. Any marketing problem without a problem-solving technique will be highlighted in this way – and any techniques that lack relevance to problems will also be apparent.

The contributions to this volume do not define, in any absolute sense, the boundaries of ‘the financial dimensions of marketing’, nor do they, in any strict sense, attempt to reflect the state of the art within this field. What they do, however, as a contribution towards future developments in the field, is to suggest the coverage of the field by reference to *defined* problems and *available* methodologies. To this extent the collection aims to *consolidate* rather than to *extend* our knowledge of this field, but it also aims to *extend awareness* of both problems and problem-solving methods by bringing together a varied range of material that is of relevance to a varied range of readers. (Indeed, in compiling this book, great care has been taken to ensure that there will be a mutual learning experience by marketing *and* financial readers, with the aim of giving each a better understanding not only of the problems, philosophy, and methods of the other, but also of ways in which they might work more closely together to achieve common ends in a more satisfying and efficient manner.)

Within this collection of articles there are many by writers in the marketing and accounting/finance fields, but other writers from such areas as economics and management science are also represented. There is no intentional bias towards particular sources, despite there being an inevitable emphasis (as shown in the table below) on American contributions, although Australia, Canada, New Zealand, Denmark, Finland, and Britain are amongst the other countries from which material has come.

ORIGIN OF CONTRIBUTIONS AND SOURCES

<i>Articles</i>		<i>Journals</i>
2	Australia	1
1	Canada	1
3	Europe (excl. U.K.)	2
2	New Zealand	1
7	U.K.	6
26	U.S.A.	10
<hr/>		<hr/>
41		21

Various criteria were employed in choosing material for inclusion, including:

- (a) interest and relevance to the theme of the book and to the intended readership;

- (b) importance (in terms of quality and utility);
- (c) challenge in the content (e.g. as a novel approach, or as a basis for further research);
- (d) methodology employed (whether empirical, experimental, or theoretical);
- (e) coverage of specific problem areas and techniques;
- (f) range of sources (relating both to vintage and geographic/journal sources);
- (g) writing style of authors (with particular regard to their ability to integrate lucidly principles and practical applications); and
- (h) a problem-orientation rather than a preoccupation with techniques *per se*.

As a result of the application of these criteria to a vast array of material it is hoped that the items selected all exhibit one or more of these characteristics;

1. an outline of analytical methods that might be employed (possibly in a modified manner) to help in solving marketing problems in readers' organisations;
2. an evaluation of practices within the field of the financial dimensions of marketing;
3. suggestions as to how problems in adopting particular methods/techniques might be overcome, or approaches modified, to lead to improved organisational effectiveness.

Advice on the problems and techniques to include was provided by both practitioners and academicians working in accounting/finance and marketing. As a result the readers to whom this book is intended to appeal are likely to be within one of the following groups:

- (a) *Practising managers* – whether functionally based (in accounting/finance, marketing, or management services), or having wider responsibilities in general management or consulting, who have an interest in improving their understanding of the financial dimensions of marketing as a prelude to improving their own effectiveness and hence organisational performance.
- (b) *Teachers of management* – be it from either a marketing or financial point of view, or with a general management or a management science orientation.
- (c) *Students* of accounting, marketing, and management in either the universities and polytechnics, or studying for membership of one of the professional bodies (such as the Institute of Cost and Management Accountants, the Institute of Marketing, or the Association of Certified Accountants).
- (d) *Researchers* – who will be able to make use of the extensive, classified bibliography to help them in their work.

It could be said that the book is structured in a *controllership format* (beginning with organisation and methodological issues, and then progressing to specific

xx Preface

marketing problem areas) rather than in a *marketing format* (which might begin with coverage of market segmentation and research, and move down through specific marketing areas — such as product, channel, and price — to questions of methodology).

However, despite Professor Kenneth Simmonds' strong insistence in his Foreword that accountants need to shift from their traditional, analytical/comparative, introspective (and increasingly irrelevant) stance to a diagnostic orientation that focuses on matching corporate resources to environmental opportunities, this book is intended to take only some of the steps (as shown by the format of the contents) towards this highly desirable end by providing a bridge that:

- (a) takes accountants *into* marketing and brings accounting *to* marketing managers;
- (b) brings together a collection of material which is largely well-established, but which provides a base that may encourage readers to pursue those ideas in which they are particularly interested into more recent and novel writings. The bibliography will facilitate this.

The subtitle of this volume — *A Source Book* — is significant because it emphasises the wish to give readers a way into the literature of the financial dimensions of marketing in order to help them:

- 1. in defining problems;
- 2. in suggesting solutions to defined problems;
- 3. in giving a basis for evaluating available methods for solving defined problems (or assessing the adequacy of those definitions); and
- 4. ultimately, in controlling their organisations (and environmental linkages) in a way that will lead to an improvement initially in organisational effectiveness, but thereafter in human well-being.

If it is successful in achieving any of these ends its publication will have been justified.

February 1980
University of Sheffield

RICHARD WILSON

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RICHARD M. S. WILSON: A Biographical Note

The compiler's commercial experience has been gained in posts involving marketing, management services, and financial control, in a variety of industries covering consumer goods, industrial goods, and services.

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Amongst his qualifications are degrees in management, economics, and technology/sociology, plus the Diploma in Marketing which he holds with distinction and for which he was awarded the Rothman Prize. Richard Wilson is a member of the Institute of Marketing, the Market Research Society, the C.A.M. Foundation, the Institute of Cost and Management Accountants, the American Accounting Association, and the Association of Certified Accountants.

His main teaching and consulting interests are in the area of managerial analysis and control, and his research interests include the interface of marketing and accounting, and the marketing of financial services. He has published widely on a varied range of managerial topics, and amongst his previous books are *Management Controls and Marketing Planning*, *Financial Control: A Systems Approach*, and *Cost Control Handbook*. In the past he has represented both the Institute of Marketing and I.C.M.A. on working parties looking at aspects of marketing controllership, and his other professional involvements include being a very active member of I.C.M.A.'s Post-Qualifying Education Committee and a member of the Editorial Board of *The Journal of Enterprise Management*.