The marketing/accounting synergy: a final word but certainly not the last word.

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From an accounting perspective, the longest established cooperative practice with marketing would seem to have been the introduction of and acceptance of financial management disciplines within the marketing function. This strongly reflects popular stereotypes of both groups: profligate marketers being reeled in by penny-pinching accountants. And yet if we move forward to the C21st interface between them, many who are attracted to it, be they academics or practitioners, would be hard pressed to deny that customer profitability analysis (CPA) is the most popular exemplar of this synergy.

Briefly reprising CPA, which has been extensively discussed in other contributions to this collection, many people are familiar with it as a highly visible, and widely practised derivation of activity accounting, activity-based costing (ABC) applied to ‘doing business with customers’. From a traditional cost accounting perspective, CPA potentially identifies which customers to divest, although the more managerial accountants might remind us of the merits of the short term relevant costing corrective to such impulses. Conversely, from a contemporary cost management perspective, CPA promises to identify cost management opportunities that might be pursued for mutual benefit. To those with a longer, and wider familiarity with the accounting/marketing interface, the origins of CPA (and ABC) actually lie in the 1920s and 1930s, while there was significant interest in Customer Account Profitability in the 1960s, at the very time that Johnson and Kaplan (1987) suggested managerial accounting was rapidly losing its relevance within the business enterprise.

Rather than debate the genesis and evolution of CPA, it is more useful to observe that, as an instance of segmental analysis, it is the principal exemplar of accounting/marketing cooperation, and very distinctly a managerial accounting technique. In truth there is very little possibility of developments that combine marketing and financial accounting and reporting, at least as they continue to prevail. Marketing expenditures have traditionally been expensed as incurred, in the name of prudence. As discretionary expenditures they can readily be slashed quickly, removing them from the income statement at one fell swoop (in the pursuit of increased earnings with a short-term focus – although this is a myopic view of the importance of investing in markets).

Brands continue to remain a serious problem to financial accounting and reporting practitioners, unless they are acquired in a business transaction when they may be included in the purchaser’s balance sheet (nowadays) at their fair value, with any excess outlays being designated and accounted for as goodwill. Unfortunately, once a stock of brands is purchased, any enhancement
expenditures must be expensed – there is no accounting for ‘home-grown’ brands. There is provision for capitalising the expenses entailed in creating customer databases or customer lists but this again is constrained by a set of demanding requirements designed to conform with the established practices of financial accounting and reporting rather contribute to the challenge of creating and delivering value to customers and shareholders. Brand equity, which marketing management researchers have explored since the early 1990s, and with no little success (Aaker, 1991, 1995), presently has the appearance of being a step too far. But this is to get ahead of the story.

In the absence of much prospect of creating a fruitful financial accounting/marketing interface, the question that begs itself is whether CPA, as a popular managerial accounting development, provides the basis on which to promote further accounting/marketing synergy? A number of contributors to this collection are not persuaded that it does, suggesting alternative approaches that draw on parallel developments in marketing management. Unfortunately, there seems to be little will to identify what it is about CPA that ultimately restricts its appeal. Today there is much more to managerial accounting than identifying techniques of varying degrees of sophistication that amount to little more than identifying where it is possible to contain marketing expenditures. Least it be overlooked, those who initially commended ABC did so because they believed it furnished more accurate product costs. As such, those of a sceptical disposition might conclude it is little more than an improved approach to absorption costing, which has its roots firmly in financial accounting and reporting requirements. The subsequent recognition of ABC’s and CPA’s cost management potential, with its value creation emphases, is welcome. At the same time the subtle distinctions between cost reduction and cost management are easily dismissed by practitioners in particular as merely playing with words. Whether, in the role of the management accountant, you ask a marketing colleague to reduce her/his costs or manage them, it amounts to importing the same thing: the application of a financial management discipline within the marketing function.

At an early stage in the debate about how managerial accounting might be made more relevant to the challenges faced by senior management, Bromwich and Bhimani (1989) identified strategic management accounting (SMA) as a possible alternative to developments such as ABC. The term SMA was initially coined by Simmonds in 1981 to identify a form of management accounting that he believed held out great promise for the profession. Where managerial accounting was traditionally represented as internal reporting, SMA was characterised by its external orientation (Wilson, 1995). Simmonds argued that some management accountants were beginning to recognise the value of assembling information about their competitors, hence the subsequent designation of SMA as competitor-focused accounting (Guilding, 1999). This did not exhaust the alternative nature of SMA, Simmonds arguing that it was now desirable to collect information on sales volumes, market shares, cash flows and resource utilisation as well as on costs and prices. SMA did not privilege accuracy of information as
much as the contribution it made to a business’s strategy formulation. Simmonds freely acknowledged that because of its departure from mainstream accounting emphases, SMA might also become part of the toolkit of marketing managers or business planning professionals, although in his view management accountants were better placed to make this new approach their own. Simmonds subsequently published further papers on SMA (Simmonds 1982, 1986) but it largely failed to capture the attention of practitioners during the 1980s. A case study on something akin to SMA practice was published by Rickwood, Coates and Stacey in 1990, however, a notable feature of which was that it suggested a significant degree of cooperation between management accountants and marketing managers.

In some respects, Shank and Govindarajan’s strategic cost management framework (Shank, 1989; Shank and Govindarajan, 1989, 1992a, 1992b, 1993, 2000) is the closest descendent of Simmond’s approach. It is an externally oriented approach focusing on competitors with the intention of generating comparative insights that are designed to inform the strategy process. Shank and Govindarajan have Porter’s work on value chains to inform their conceptualisations of competitor performance (Porter, 1980, 1985), as well as the early work within the activity-based (cost) management field (Cooper and Kaplan, 1991). On the critical question of the quality of any strategic cost information Shank and Govindarajan are less convinced of the need to depart too radically from the accounting mainstream, a difficulty that ultimately suggests that, counter to Shank’s own founding assertion, what is on offer here remains old wine. The link is evident in the set of customer-focused accounting techniques identified by Guilding (1999).

Following the publication of their CIMA research monograph: Management Accounting: Evolution not Revolution in 1989, in a series of outputs published during the next five years Bromwich and Bhimani outlined a second variant of SMA that remained fundamentally faithful to Simmonds’ founding idea (Bromwich, 1990, 1991; Bromwich and Bhimani, 1989,1991,1994). Like Shank and Govindarajan, Bromwich and Bhimani also had the benefit of Porter’s competitive advantage theory to aid them. More importantly perhaps, they incorporated insights from work on target costing, the Japanese counterpoint to ABC and a development that was itself more multidisciplinary in its foundations, as well as explicitly outward looking (Hiromoto, 1988, 1991; Sakurai, 1989; Kato, 1993).

The centrepiece of Bromwich and Bhimani’s SMA approach was the attribute costing technique. On the basis of their assertion that the real drivers of cost were the benefits that customers sought in products, Bromwich and Bhimani advocated costing the benefits of products. While continuing to commend attempts at competitor costing, for Bromwich and Bhimani the central focus of SMA should be on markets and customers. Bromwich defined SMA as:
The provision and analysis of financial information on the firm’s product markets and competitors’ costs and cost structures and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a number of periods. (Bromwich, 1990: 28), subsequently arguing that the adoption of SMA will:

“….help focus management efforts on their markets where customers have to be won and retained and competitors repulsed. (Bromwich, 1991: 2).

Attribute costing is based on the application of a strategic cost analysis matrix in which the many attributes associated with a particular product are to be subject to systematic costing, using a typology of four cost categories. In the spatial representation of this matrix (p127) it is possible to see how its effective utilisation implies a high degree of cooperation between management accountants and their marketing management colleagues, an observation reinforced by Bromwich’s concept of an efficient product:

Only efficient products, each of which yield the maximum amount of a specific bundle of characteristics for the amount of money the customer wishes to spend, will survive in a well organised market. Whether a product represents an efficient way for the consumer of buying the bundle of characteristics depends on product prices as well as the quantities of characteristics offered by products. (Bromwich, 1991: 9).

Despite these very persuasive arguments for developing the SMA concept, little more than a couple of years later the project seemed to peter out. A collection of papers exploring the state of the art of SMA practice published in Management Accounting Research (Tomkins and Carr, 1996a,b) was largely decoupled from Bromwich and Bhimani’s work, affirming the editors’ opening observation that there still remains little consensus about what the term SMA means. Coad (1996) and later Dixon (1998) provide case studies of what they identified as SMA practice, although both papers were content to rehearse its earlier conceptual foundations. In many respects, however, it was Lord’s 1996 paper that signalled the end of the road for SMA. Drawing on a wider set of developments than outlined above, she identifies the principal attributes of SMA, which she then argues do not form part of the stock of contemporary management accounting in New Zealand. In the second half of her paper, Lord discusses Cyclemasters, an organisation in which something akin to SMA was practised but unfortunately, not by the accountants. This leads her to conclude that SMA may not be anything more than just a figment of academic imagination. Conversely, from our perspective the observation that this was part of the marketing functions’ jurisdiction only served to reinforce the conclusion that there was still considerable mileage left in a multidisciplinary approach to SMA.
Roslender and Hart have been in the vanguard of continuing to promote SMA in recent years. They have done so using a particular conceptualisation that represents it as a development incorporating managerial accounting and marketing management insights. Informed by a study of patterns of interaction between management accounting and marketing management practitioners in UK organisations, they identify three stages of increasing cooperation between them (Roslender and Hart, 2002, 2003). At the initial, most rudimentary stage, the two groups are involved in the implementation of budgetary control processes within the sales and marketing function. Such cooperation has been conceptualised as the pursuit of marketing controllership (Wilson, 1999), being very close to the imagery invoked in the opening paragraph of this essay. Stage two entails the two groups cooperating in the exploration of a range of managerial accounting developments, including CPA, which seen to be more progressive and potentially beneficial than budgeting and responsibility accounting. For Roslender and Hart, however, developments such as SMA and VBM constitute a further, significantly more fruitful instance of interfunctional coordination (cf Narver and Slater, 1990), which is referred to as the synergistic stage of development.

In a later paper, Roslender and Hart (2006) present the case for viewing brand management accounting (BMA) as a further development of the generic SMA concept (Roslender, 1995). BMA is identified as a means of finally dissociating accounting for brands from the financial accounting and reporting model briefly described earlier in this essay. It is also argued to be a continuation of work begun in the early 1990s by Guilding and various associates, parallel to that of Bromwich and Bhimani’s thinking on SMA but seemingly quite distinct from it. The significance of (management) accounting for brands lies in the rapidly growing importance of brands in everyday life and, as a result, their cruciality to the creation and delivery of value to market savvy customers by business enterprises to their customers. Roslender and Hart take as axiomatic the position that unless the accountancy profession, in close cooperation with marketing management, is unable to successfully account for brands, its contribution to accounting for strategic positioning (Roslender, 1995) may be seriously undermined.

Rereading the 2006 paper, there are some grounds for observing that what is being proposed amounts to a potential Trojan horse, in that Roslender and Hart seem prepared to gift a significant part of the traditional jurisdiction of accounting, if not necessarily management accounting. Frankly, Roslender and Hart had been persuaded that there was more to be learned from some marketing management contributions on strategic brand management than from managerial accounting. As a consequence, the brand equity concept presented little difficulty, since what is being proposed is a multi-metric approach to accounting for brands. They were also gratified to learn at the time that something similar was being proposed by Ambler and Roberts (2006) in the case of the customer equity concept, and affirmed in their paper in this collection. Moreover, given the
rise and rise of the balanced scorecard reporting framework, in its more sophisticated iterations (Kaplan and Norton, 2004, 2006), Roslender and Hart also felt assured that some at the leading edge of managerial accounting developments were also thinking along parallel if not similar lines.

What did trouble Roslender and Hart were the observations of one reviewer, who continually insisted that the paper was saying nothing new in advocating brand management accounting. This was very largely true, of course, something admitted in both the various (many) iterations of the paper and in responses to reviews. Although not obvious at the time, this position is about as profound as saying that what is new about a particular cocktail, given that none of its ingredients is new? What is new, surely, is how the various constituents are mixed together. To our knowledge there is no contribution to the managerial accounting literature that replicates the BMA cocktail. It is still much too early to determine whether we have indeed produced a palatable cocktail in Roslender and Hart (2006), although if the present collection is any indication, it appears not. In the interests of balance, however, it should also be observed that, for whatever reason, despite their increasing encroachment into everyday life, brands still do not appear to have attracted the attention of those working at the accounting/marketing interface, the contribution to this collection by El-Tawy and Tollington as welcome exception.

Conversely, the collection does seem to suggest that many of those who are interested in the accounting/marketing interface are focused on customers. This should come as no great surprise following two decades during which relationship marketing has emerged as a core perspective within marketing management, one consequence of which has been that many marketing academics and practitioners loudly assert that ‘our customers are our most important asset’ (Peppers and Rogers, 2005). Intriguingly, this claim is challenged by their counterparts in human resource management, who prefer to identify ‘people’ in this way. Ironically, identifying either customers or people as assets is guaranteed to make accountants in general, and financial accounting and reporting specialists in particular, more than a little uncomfortable. By comparison, accounting for brands is pretty straightforward stuff – at least you can buy a brand asset, unlike either customers or people (though you can buy customer lists…….).

So how is it possible to account for customers? Obviously they can’t easily be put on the balance sheet, which to the purists might mean it is wrong to even refer to them as assets. Earlier considerable doubt was cast on whether accounting for customers via the mechanism of CPA or customer account profitability exercises is of much significance. If customers really are the most important asset for any business (and we are not prepared to discount this out of hand, in this essay at least), accounting for them must surely have more weight associated with it.
With the realisation of the importance of customers to the continued commercial success of the business has come the emergence of a new concept much in evidence in the previous pages: customer equity. And with the concept of customer equity has come the project to revisit attempts to determine the financial value of marketing assets using the principles of discounting. Arguably the best known example of this approach, developed in the case of brands in the early 1990s by Interbrand, entailed applying a composite brand strength multiplier to discounted short to medium term income streams for a brand. While still a successful consultancy, the model commended by Interbrand failed to find much favour with the UK accountancy profession, who thereafter felt sufficiently comfortable to quietly forget about it. This time around, much of the customer equity literature emanates from the USA and is largely the work of financially oriented marketing management academics who feel confident that they can begin to go it alone to some extent, a risk that Foster and Gupta (1994) warned against in their seminal paper on the accounting/marketing interface. Although not widely involved as yet, some sections of the financial accounting and reporting fraternity will take comfort in the observation that their marketing management colleagues have eventually begun to recognise the superiority of the accountancy profession’s jurisdiction and the credibility of what some like to refer to (albeit disparagingly) as ‘hard numbers’.

The authors are neither sufficiently well equipped nor inclined to debate the merits of the different approaches to determining the financial value of customer equity. If readers have not as yet grasped that we have little confidence in financial accounting and reporting approaches, and most especially those which embrace the scientficity associated with what in the accounting research literature is termed market-based accounting research, then we have summarily failed in our task. What specifically interests and challenges us is to develop a managerial accounting approach to accounting for the customer, and one that is rather more ambitious than CPA or such developments. It must also reflect the direction in which managerial accounting has been developing over the past couple of decades, i.e. towards a much softer emphasis evidenced by a greater acceptance of non-financial metrics that are reported in their variety, with an appreciation that more maybe better than less information, inter alia via a balanced scorecard or some such performance reporting framework. Besides, there is also something wholly incongruous about visualising customers using what might be designated as the hardest of hard numbers.

It is axiomatic that this new management accounting for customers is the result of cooperation by managerial accounting and marketing management academics working in tandem. Therefore, what initially needs to be agreed upon is the purpose of the exercise. For us there is little doubt that their joint objective should be to contribute to the creation and delivery of value to customers. This returns us to the erstwhile focus on the market orientation concept, as articulated by Narver and Slater:
Creating value for buyers is much more than a “marketing function”; rather a seller’s creation of value for buyers is analogous to a symphony orchestra in which the contribution of each subgroup is tailored and integrated by a conductor…….When there is no tradition of interfunctional coordination within a business, effective advocacy and leadership are needed to overcome each functional area’s isolation from the other functions. Achieving effective interfunctional coordination requires, among other things, an alignment of the functional areas’ incentives and the creation of interfunctional dependency so that each perceives its own advantage in cooperating closely with the others. (Slater and Narver, 1990: 22).

If this is the fundamental challenge that faces all businesses (and many other organisations beyond), then it is incumbent on all parties to make a contribution towards meeting it (see also Wilson and Fook, 1990). This is at odds with the overarching objective attributed to financial accounting and reporting, which remains focused on the interests of shareholders, nowadays referred to as creating and delivering shareholder value. Reporting increased customer equity (and before it, brand equity) would seem to be consistent with this latter notion. By contrast, the creation and delivery of value to customers doesn’t seem to sit easily with the intentions of customer profitability analysis, which once again can probably be best understood as being shareholder oriented in the last analysis, whether used in tandem with cost management or not.

What we have in mind is some form of customer-focused accounting (CFA), although not with the same constituents as Guilding and McManus’ (2002) designation: customer profitability analysis; customer segment profitability analysis; lifetime customer profitability analysis; and valuation of customers/customer groups as assets. As the term suggests, CFA needs to focus on the customer; it must provide information about customers. More specifically it must provide information on value as sought by the customer. From a managerial accounting perspective, the image that this immediately conjures up is the creation and delivery of ‘value for money’ to customers. Here customers are being characterised as always seeking value for money, wanting the most for the least. If we return to Porter (1985), however, we find that this is more commensurate with a cost leadership strategy, which strongly resonated with those who advocated a strategic approach to cost management.

Porter also identified a second generic strategy, that of differentiation, whereby customers were prepared to pay more for a different product, perhaps best conceptualised in the form of branded offerings. While not entirely oblivious to the need for some semblance of value for money in the case of many branded offerings, sizeable numbers of customers are prepared to pay more for the offerings they seek. Value, therefore, is not simply about financial value (as in value for money, shareholder value, economic value added, etc). It also encompasses a range of subjective, emotional, associational, significatory, i.e. qualitative, dimensions that are sufficiently powerful to subordinate the rational
person in most of us. Such ideas are, not surprisingly, already well documented in parts of the strategic brand management literature.

CFA should, therefore, be oriented to providing information on customers as sources of income streams, rather than as income streams, current or future discounted. Some of this information will be of the most basic sort, and widely associated with market research, e.g. numbers of customers or growth in numbers of customers, for both the business and its principal competitors, much in the manner intimated by the founder of SMA, Simmonds. Customer satisfaction measures are already well established, and with varying levels of sophistication, as are measures of customer loyalty, customer retention, customer turnover and customer referrals. There is no necessity to attempt to place any financial value on these data. They are simply alternative representations of customers as assets, representations which to us are more relevant than those normally furnished by the accountancy profession. The observation that such exercises effectively relieve management accountants of their comparative advantage over marketing managers misses the point, that of different expertises being combined in the pursuit of creating and delivering value to customers. At its simplest, what is being commended to management accountants is that they refocus some of their priorities from providing information to senior management as the representatives of the shareholder within the organisation to providing information to senior managers as the representatives of the customers.

Unfortunately, for some readers a rather uninspiring image of management accountants and marketing managers cooperating in ‘counting customers’ may come to mind. Some in the former group might find consolation in having the opportunity to teach the latter how they might count better and more systematically. Correspondingly, marketing managers might conclude that they have at last begun to grasp the tricky nettle of marketing accountability (Shaw and Mazur, 1997)

So to end with a more radical proposal: there is something unconvincing about linking the notion of customer value to the practice of counting. By the same token, it seems to us that there should be rather more to accounting than ‘counting’. What is an account? It is a story, a representation, a visualisation. We are all familiar of the ‘account’ provided by the eye witness at some incident or the newspaper article on the same incident produced by a journalist. Both of these accounts employ words (and sometimes pictures) to tell their stories. Likewise the accountant has traditionally told her/his story using numbers, in a highly prescribed way in some cases, which links back to the idea of counting. To the extent that marketing managers wish to fashion their own accounts (of customers) they may be readily seduced by the kudos that continues to be attached to accounting.
Is it possible to capture the subjective, emotional, associational, significatory or similar qualitative attributes of customer value by counting? A much more promising avenue to explore is that of recounting, where customers fashion their own accounts of their links with particular offerings and the organisations that provide them. This process would need to be pursued in a systematic way in order to enhance its credibility, with the array of stories generated being combined with other information sets to provide a more balanced, richer understanding of customer value expectations. Would the accountancy profession be prepared to consider such excursions? The leading edge of intellectual capital reporting, in the form of the Danish intellectual capital statement approach, suggests this may not be so far away (DATI, 2001; DMSTI, 2004). Similarly the exploration of Health Statements in Scandinavia (Grojer and Ahonen, 2005; Mouritsen and Johanson, 2005; Almqvist, Backlund, Sjoblom and Rimmel, 2007), and recent work done in connection with the definitions/valuation of information as an asset (Oppenheim, Stenson and Wilson, 2003a,b, 2004), as well as the continuing interest in the role of narrative reporting within a business reporting model (AICPA, 1994; ICAS, 1999; IASB, 2005). In our view, it seems to merit at least the same level of interest and exploration that the marketing management community seems to be being urged to pay to its antithesis, the heavily counting oriented customer equity concept.

References


