MARKETING ACCOUNTABILITY: LINKING MARKETING ACTIONS TO FINANCIAL RESULTS

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Abstract
Marketing function could benefit from favorable resource allocation and timely approvals for new marketing initiatives when it is perceived as being accountable. Many times marketing fails to link its activities to financial outcomes. There are three distinct classes of outcomes that relate to marketing activity: short term effects, long-term effects, and real options. Until now marketers have been most successful at identifying, measuring, and modeling short-term effects. Long-term effects occur in the present but fundamentally alter the market over the long term or at least for some period into the future and are more difficult to measure. The third type of return on marketing investment is referred to in finance as real options (the future opportunities for the firm). Valuing such options is difficult but marketers need to identify this type of contribution. By adopting more advanced measurement tools, marketers can not only measure the impact of their marketing programs against the goals of their organization, but also justify their actions to top management. The paper suggests some practical steps to improve marketing accountability not as an end goal in itself, but as a key factor in a move to support a customer focus and approach to growth.

Keywords: *marketing, accounting, financial results, measurement tools*

JEL Clasiffication : D40, M31, M40

Introduction

Increased competition and the economic crisis have led many companies to focus on customer. Organizations focused on their customers consistently outperform their competition. These companies carefully segment their customers, develop a specific value offering for target customers and deliver an outstanding customer experience.
For the marketers focusing on client involves the transmission of relevant information to corporate management and more efficient use of budgets.

Understanding the role of marketing and expenditure efficiency is vital for all the employees.
Marketing budgets are cut first and increases the pressure to justify their efficiency.
At a time when firms are cutting costs, it is essential for all functional disciplines within the firm to be financially accountable. This introduces the need for measurement, as without measurement it is impossible to be accountable. For firms to measure the return on marketing, it is essential for them to treat marketing expenditures as an investment.
However, only through treating marketing expenditures as an investment can marketing be compared to other tangible and intangible assets enabling the marketing function to play a role in the strategy of the firm (Schultz & Gronstedt, 1997).
The treatment of marketing as an investment requires besides the existence of financial metrics defining the causal linkages between marketing and financial outcomes
One of the key reasons for performance measurement is to obtain timely feedback so that corrective actions can be taken (Ambler, Kokkinaki & Puntoni, 2004).
Specialized language and the current way of measuring the results of marketing activities is little understood by organisation's staff and even top management.
For marketing to be a credible contributor to company success it must use the same financial language as the rest of the company and need to translate the results into economic indicators understandable outside the marketing department.
Marketers must be able to correctly measure marketing processes and translate them into clear metrics and measures in appropriate language to be understood by people from finance and engineering.
It is difficult to measure the effects of marketing activities. Effects of marketing expenditure take time to manifest on the market. This time lag often transcends the annual fiscal profit.
Often most metrics used to assess the outcome of marketing activities are tactical and not directly relevant to the overall performance of the firm.
By adopting more advanced measurement tools, marketers can not only measure the impact of their marketing programs against the goals of their organization, but also justify their actions to the top management.

The marketing outcomes

In developing a system of indicators that reflect correctly and completely effective marketing expenses and their contribution to the final results of the company is necessary to take into account at least three distinct classes of outcomes that relate to marketing activity: short- term (incremental) effects, long-term (persistent) effects, and real options.

1. *Short term (short lasting) effects* such as: incremental sales; sales not lost to a competitor; brand preference and choice; leads generated; close rate; awareness; purchase intention; call center contacts; web visits; permission subscriptions; and store visits.

All of these represent intermediate marketing measures that are linkable to cash flow.

2. *Long term (persistence) effects* occur in the present, but fundamentally alter the market over the long term, or at least for some period into the future (DeKimpe and Hanssens, 1995). A good examples are activities designed to build brand equity. One outcome of creating a strong brand is the creation of a persistent sense of value that creates a willingness among customers to pay a price premium for the product into the future.

This effect does not suddenly occur out of nowhere after there being no effect for long periods of time. This effect instead takes place now but has effects that persist into the future. Long-term impact is more difficult to measure, although notable efforts to do so are in the literature. One of the main problems in analyzing long-term effects is that in order to assess the long-term impact of marketing actions, marketers must know the starting point or baseline and then what increase may have occurred as a result of marketing actions relative to that baseline. The starting point could be sales volume, market share, brand equity, brand preference, or customer loyalty and retention. A change in baseline that persists over time is a long-term effect. The expenditures and activities creating this effect continue to have an influence in the market long after initial impact.

In fact, it has long been noted in marketing that marketing actions, such as advertising and promotion, have both a short-term and long-term effect on firm sales (Jedidi, Mela, & Gupta, 1999)

3. *Real options* represent opportunities that the firm may or may not pursue in the future but they are opportunities that are unique to the firm and have real value (Luehrman, 1998**).** The third type of return on marketing investment may well be among the most important but the least understood at the company level. Many marketing activities are about creating and sustaining real options. These options have value because they afford future opportunities for the firm. Brand is a special case of a real option. Strong brands create opportunities (options) for premium pricing in the future, for brand extensions, and for cross selling, among others.

A web site creates opportunities for communicating with consumers in the future and for distribution and sales through the web site.
These types of future opportunities created through marketing activities are referred to in finance as real options. Economists suggest that much of the value of businesses, of commercial firms, resides in the unexercised options that they hold in their portfolio. To the extent that marketing activities create options, they are contributing to the value of the firm. Valuing such options may be difficult but marketers need to identify this type of contribution and clearly articulate to senior managers and board members.
Given these broad classes of outcomes and the need to link marketing outcomes to financial performance, a need exists to causally link specific marketing actions and intermediate marketing outcomes to each of these three types of returns to marketing. Such causal-linkage research requires an audit process for linking and selecting marketing metrics and financial performance. Follow widely accepted accounting principles, requiring all marketing investments to be booked as expenses in the quarter in which they are incurred, even if the pay-off is expected for a much later period.
Accountability of marketers for their marketing spending and contribution to shareholder value creation is now a major issue (Srivastava, Shervani and Fahey, 1999).
Currently available managerial tools do not allow the observation of long-term marketing effects or to take any decisions of resource allocation in changing markets
Traditionally many firms have viewed marketing as a short-term expense (Rust, Lemon, & Zeithaml, 2004). Conventional measures of productivity do not provide information that can be used to assess the long-term future performance of the firm (Ittner & Larcker,
1998). the metric should be forward-looking and have a long-term perspective to avoid the tendency to maximize short-run performance at the expense of long-run wealth creation (Laverty, 1996). Many marketers rely on subjective measures of performance, particularly in the areas of customer attitudes, product attributes, brand associations, and customer satisfaction.
Top management asks for marketing accountability and assurance that investments on marketing are contributing to long-term profitable growth.

Marketing Accountability

The existing literature is largely consistent in how it defines marketing accountability, with it generally being accepted as the ability to link marketing activities to financial and/or non financial outcomes. The American Marketing Association (AMA) defines marketing accountability as “The responsibility for the systematic management of marketing resources and processes to achieve measurable gains in return on marketing investment and increased marketing efficiency, while maintaining quality and increasing the value of the corporation". (AMA, 2011)

Marketing accountability metrics are inherently financial constructs. No measure or measurement system is complete without a specific link to financial performance.

Marketing accountability metrics should provide information for guiding future decisions and for predicting future economic outcomes as well as provide retrospective evidence of the impact of marketing actions.

Marketing accountability metrics should be recognized as a necessary investment for assuring sound decision-making, accountability, continuous improvement, and transparency for all stakeholders.

Steps to Improve Marketing Accountability

There are two things every marketer can do to improve their accountability. First, ensure the link between marketing objectives and the associated programs, tactics and activities are directly linked to specific quantifiable business outcomes. Second, demonstrate the value of marketing by setting, monitoring and reporting on relevant measurable marketing objectives, metrics and performance targets to the leadership team.

In order to start marketing accountability five initial steps need to be taken:

1. *Conduct an audit* to identify alignment, data and process gaps. Audit aims to identify and add the right talent, systems, and tools to help automate marketing processes and improve marketing performance.
2. *Create and adopt a performance measurement and management strategy*, system and metrics and measurement framework that aligns marketing with the business outcomes**.** Design and select metrics and standards of performance that enables marketing to measure its impact, effectiveness, efficiency and value. Metrics should tie to three primary responsibilities of marketing: acquiring, keeping and growing the value of profitable customers. Therefore the metrics selected should indicate the impact marketing on market share, customer value, and customer equity.
3. *Engage the leadership team and form strategic partnerships with an extended team of finance, IT, sales, service,* etc**.** Performance management is one of critical business initiatives. CIOs and IT play a major role in creating and maintaining the infrastructure and data needed to support performance management. Marketing accountability is the key to performance management.
4. *Create and align processes, policies and practices that ensure the linkage between marketing objectives and programs with business results***.**

As a result the marketing organization will be properly and strategically positioned and pulling in the same direction as the rest of the organization.

5. *Develop a multi-level dashboard* to report performance and results in real-time to facilitate course adjustments and foster decision making. A good marketing dashboard facilitates decisions.

For many marketing organizations these steps may require process and cultural changes.

Conclusions

Marketing needs to be accountable now. Marketing has to be able to link cause and effect of investments, to diagnose performance problems in a timely way, and make fact-based decisions on how to increase Return on Investment. Marketing must be efficient and effective at the same time.

Accountability is ultimately about economic outcomes and financial results, and marketing must be prepared to embrace this notion in order to develop its own standards for accountability. Marketing function could benefit from favorable resource allocation and timely approvals for new marketing initiatives when it is perceived as being accountable.

Marketing needs standard measures that relate to short-term incremental results and longer-term effects, and these measures need to link to cash flow. Such measures will allow marketers to forecast future outcomes, evaluate past actions, and make more optimal allocation decisions with respect to resources, particularly in firms that are managing non comparable portfolios of products and markets.

Finally, without standard measures marketers simply will not be able to improve over time. They need to be able to assess how they are performing relative to the past and whether or not their performance has improved. The solution to the need for standard measures and metrics within marketing will arise in the competitive market.

If firms invest in standardized metrics and a formal audit process, the providers of metrics and measures in the marketplace need to provide significant transparency with respect to the measures and metrics that they offer. Firms must share information with respect to the validity of measures or metrics.

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