

THE INTERRELATIONSHIPS BETWEEN A COMPANY'S MARKETING AND FINANCES

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INTRODUCTION

Marketing and finance constitute functional subsystems of any company. Generally speaking, marketing is responsible for the relationships between a company and its environment, the creation of its competitive advantage, the protection and strengthening of its market position and the growth of its value in the long-term perspective. Corporate finance deals with the accumulation of financial resources and their allocation for the company's purposes. The data generated by corporate finance enable the company to make optimal decisions concerning the use of its resources. Therefore, the company's operation requires mutual interdependence and close interrelationships between the company's finance and marketing divisions. Achieving a predetermined level of profit and profitability enables the company to protect and strengthen its market position. On the other hand, profit and profitability are determined by the appropriate preparation and execution of the company's marketing strategy. The range and intensity of the company's marketing activities, in turn, depend on the level of the company's profitability and profit. In consequence, all of the company's marketing decisions have a financial aspect since they involve certain costs and bring in profits in form of the company's revenue.

In both practice and theory, however, independence and increasing autonomy between marketing and finance can be observed. Publications that take up the interrelations between the two areas are rare and in scientific papers and coursebooks each of them is discussed separately. It is also common for authors in both fields to present the viewpoint that it is their own academic discipline that plays the leading and superior role in management processes [Niestrój 2002, Adamska and Dąbrowski 2007, Grzegorzcyk 2009].

The aim of this article is to try to determine the subject matter and the scope of mutual relationships between finance and marketing in a company.

THE SUBJECT MATTER OF THE RELATIONSHIPS BETWEEN A COMPANY'S MARKETING AND FINANCE

The interdependence between marketing and financial decisions in a company is primarily related to creating the company's marketing budget, which determines the marketing costs and estimates the efficiency of marketing decisions. It is also essential to establish the relationships between controlling/management accounting and marketing.

The budget for marketing activities can comprise a statement of the costs (expenditures) related to marketing activities within a given period and the revenues generated from these activities. The budget for marketing activities can include either all the marketing activities undertaken within a given period of time or only selected ones. It can also be prepared separately for the company's business units (e.g. its branches or the regions of activities it covers). In order to evaluate the importance of marketing in a company's management processes, it is necessary to prepare a budget for marketing activities for a given financial reporting period.

The first budget element to be determined is marketing expenditures that constitute marketing costs. One of the extremely important elements of the marketing budget, apart from the costs of marketing activities, are the revenues generated from the sales resulting from a specific marketing activity. It is therefore necessary to estimate market potential and forecast revenues generated from the sales of particular products. However, it is difficult to clearly define the extent of marketing costs because it is difficult to determine the scope of marketing activities and, as a result, the scope of marketing costs. According to some practitioners and scholars in the field of management, marketing solely involves promotional activities supporting the sales of products, so marketing costs include mainly the costs of advertising and other promotional activities [Niestrój 2002, Karasiewicz 2014]. In this approach other marketing activities are largely ignored.

The opposite approach to marketing costs, in contrast, takes into account, apart from expenditures on promotion, all costs incurred in the process of preparing and implementing any marketing activities undertaken in a given period of time resulting from the marketing strategy being implemented. These costs go to market research, product and price policies, delivering a product to market and promotional activities. Some of these costs go to classical marketing activities, while others are incurred while the company's other functions are being performed. One criterion used to make a distinction between them is where they occur; however, they can be distinguished in a relatively simple way on the basis of the company's organisational structure, as well as the production and commercial processes it implements (e.g. the costs of materials, raw materials, energy, production and sales).

The problem of the diverse character of marketing costs has been addressed by R. Niestrój, who proposes dividing them into two categories. The first includes the costs that go into running the marketing system, while the other category comprises the costs sunk into developing the marketing system. The costs of running the marketing system consist of fixed and variable costs. Fixed marketing costs include the costs that go towards running the marketing department on a day-to-day basis (e.g. employee salaries, providing equipment and purchasing professional literature and trade press for the marketing department, conducting research surveys, etc.). Variable costs are those incurred

TABLE 1. The costs of marketing activities

Marketing activities	Marketing costs
Marketing research	<p>Developing the Marketing Information System Creating a customer database Market research: independent secondary research, independent primary research, research outsourced to a marketing company and the purchase of reports on the market and its elements</p>
Product policy	<p>Developing the product concept: independent design of a new product, product design commissioned to a designer, packaging design, packaging development, designing the brand Trial production of a new product Product testing on the market</p>
Promotional policy	<p>Design and preparation of the company's documents, signboards, marking the company's headquarters Designing and preparing informational materials about the company (newsletters, folders) Independently prepared press advertisements published in daily newspapers and periodicals Radio advertisements (designing, recording, broadcasting) Direct marketing (costs of travel, telephone calls, faxes, etc.) Advertisements sent by post, postage and print costs TV commercials Billboards, posters, leaflets Sponsoring Public relations Other forms of promotional activities: fairs, exhibitions and advertising gifts and exhibits related to those events; competitions and lotteries for customers; preparation of materials for product presentation at points of sale (e.g. in retail shops or wholesalers); promotional materials for retailers and wholesalers; sales promotion activities; costs of sales department staff training)</p>
Distribution policy	<p>Distributional activities in the area of domestic distribution, including deliveries to: individual buyers, manufacturing companies, other institutions, the company's own stores, independent stores and retail networks Direct distribution, including deliveries to: wholesalers, retailers, independent agents Freight forwarding (foreign markets) Loading, unloading, storage (combined deliveries for foreign markets) Goods-in-transit insurance (supplies for foreign markets) Obtaining documents representing the goods (transport, storage, insurance, banking, etc.) Customs duties (supplies for foreign markets) Return of damaged or faulty goods</p>

Source: W. Grzegorzczak, Finansowe aspekty marketingu (Financial aspects of marketing), Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2009, pp. 95–96 and W. Wrzosek (ed.), Efektywność marketingu (Marketing efficiency), PWE, Warszawa 2005, p. 31.

in implementing particular undertakings as determined by the marketing strategy that has been adopted. Sample marketing costs are listed in the Table 1.

The vast majority of the categories in the above list are variable marketing costs related to specific marketing activities undertaken in the process of implementing the marketing strategy. As it also follows from the above list, some marketing costs are incurred in the production process (e.g. the costs of preparing the trial production concept and the costs of the trial production itself). The costs of market testing can also be classed in the category of costs related to production. The remaining costs result from promotional and distributional (sales-related) activities. If an enterprise also conducts its activities on foreign markets, the marketing costs should include promotional and distributional activities conducted on those markets as well. The above list does not include all the variable marketing costs, the quantity and types of which depend on the particular marketing mix instruments being applied.

Another extremely important element of the marketing budget, in addition to the costs of marketing activities, are the sales revenues generated from particular undertakings. It is thus necessary to determine the market potential and prepare revenue forecasts from the sales of particular products. Depending on the required accuracy of the sales forecast, sales projection, prediction and forecast terms can be used. A sales projection involves transferring past and present conditions into the future – extrapolation, in other words. A sales prediction seeks to determine future sales volume on the basis of the relations discovered between sales and factors affecting sales performance. A sales forecast is drawn up on the basis of projections and prediction and also anticipates the factors that are not measurable; it can be prepared with the use of both qualitative and quantitative methods [more: Dębski 1998, Dittman 2008].

The other category of marketing costs encompasses the development of marketing activities and the marketing system in an enterprise and is generated as a result of long-term decisions. It may include, for example, a change or development of the company's IT system, development or expansion of the company's distribution networks on the domestic market and abroad (building storage and warehousing facilities, wholesale outlets, retail stores). The costs incurred in the process of marketing development as well as expenditures on current marketing activities should be treated as a marketing investment that raises an enterprise's business value and the value of its assets, both tangible and intangible. These assets include modern IT systems, company distribution networks, market share, brand awareness among consumers and the company's brand image.

THE EFFICIENCY OF MARKETING ACTIVITIES

The fact that marketing outlays are treated as marketing investments means that they have to be measured and that their effectiveness and efficiency have to be determined. The predominant conviction in the marketing literature for many years was that measuring marketing activities was not possible due to their unique character and mutual interrelations between the applied marketing instruments. In consequence, such an approach did not allow the interdependence between the company's marketing strategy and its finance to be determined. It was only at the beginning of the 1990s, when the debate concern-

ing efficiency of marketing strategies and the interdependence between marketing and finance could be observed.

The process of managing marketing involves analysing an enterprise and its environment, determining marketing objectives, marketing strategy and the applied marketing instruments and then implementing the marketing strategy. The last stage of this process refers to marketing control; this is where the extent to which the assumed marketing objectives and efficiency have been achieved are examined. Comparing the objectives achieved in relation to particular undertakings with those being planned will make it possible to determine the extent to which the assumed plans have been realised, and thus their effectiveness. Efficiency, on the other hand, is gauged by comparing the outlays on marketing undertakings with the effects that they have brought. Marketing efficiency can be measured in relation to different aspects, including [Karasiewicz et al. 2006]:

- the enterprise's market position – e.g. its sales volume, market share;
- buyers – e.g. customer satisfaction, product image;
- marketing assets – e.g. brand value, customer value, distribution network.

The literature on marketing efficiency still continues to address the difficulties involved in examining the individual impact of each of the applied marketing instruments on the realisation of the assumed objectives, which is fully justifiable, as they are applied jointly. Moreover, the effects of activities undertaken are very frequently postponed in time.

There are various kinds of indicators used to measure the efficiency of marketing activities, including those undertaken in the areas of product policy, pricing, distribution and promotion [Kozielski 2006]. The indicator most frequently used to measure both the short-term and long-term results of marketing activities, however, is the rate of return on marketing investment, a standard indicator of financial character. Some publications on the subject have even said that it is the primary indicator used to evaluate investment undertakings in marketing [Lenskold 2004]. It enables us to relate the total costs of a particular marketing investment to the total profit that it generates. A marketing investment, therefore, includes all the costs of a given undertaking resulting from a marketing plan, which are subject to risk, whereas the whole financial surplus that can be assigned to this investment is the return on this investment. If an investment concerns a new product market launch, the gross margin is calculated by deducting the costs directly related to sales from the revenues. The costs strictly related to marketing fall under the category of investment involved in a given undertaking. In relation to the development of a new product, these costs involve personnel costs necessary to prepare a marketing plan for the product, prototype development costs, trial production and new product testing, the costs of promotional activities and the costs of getting the new product onto the market (distribution).

The return on a marketing investment is thus a fraction in which the difference between the gross margin and the marketing investment is the numerator, while the marketing investment is the denominator. The gross margin is the difference between the sales revenues and the costs of the products sold including additional costs. The costs of the products sold include both fixed and variable costs of production (materials, raw materials, energy, labour) as well as overhead. Here is a simplified formula presenting return on investment [Lenskold 2004]:

$$\text{return on marketing investment} = \frac{\text{sales revenues} - \text{sales costs} - \text{marketing costs of the undertaking}}{\text{marketing costs of the undertaking}}$$

As mentioned earlier, the use of the rate of return on a marketing investment corresponds to the principle of treating marketing outlays as an investment. The rate of return on a marketing investment can also be defined as the rate of marketing expenditures (outlays). It can be calculated for different time periods (e.g. months, quarters or years), depending on the requirements of the marketing analysis. It stands to reason that the break-even point of an investment in an enterprise needs to be determined before any strategic decisions are made; after that, the return on particular marketing investments needs to be estimated. Doing so will enable the company to select the right variant of the marketing undertaking – the one that will either meet or exceed the assumed break-even point level. Of course, the rate of return on a marketing investment should also be determined after a given undertaking has been realised, primarily in order to compare the quantities planned with the ones realised.

Some marketing activities in an enterprise are constantly implemented over a long period of time and support many other marketing undertakings. They are related to the fixed costs of running the company's marketing system. Such activities include placing online advertising messages informing users about the company or its product offer and maintaining marketing databases, to name two. The costs related to such activities should be allocated in proportion to either all subsequent marketing undertakings or to the most important ones – those that generate the highest proportion of the company's gross margin.

As also mentioned earlier, the last stage of marketing management is marketing control. Recently, this stage has been commonly referred to as marketing controlling [Sławińska 2004]. However, questions arise as to the meaning of this term. In marketing publications, the last stage of the marketing management process called marketing controlling is limited to examining the extent to which the assumed objectives have been reached and analysing the efficiency of marketing undertakings. The results of these examinations are supposed to be used to adjust the content of particular stages of marketing management in subsequent periods of time.

In the literature on marketing controlling itself, however, the notion is defined in much broader terms. Functionally, controlling is defined as a data-feeding system which supports the process of the company's management through coordination, planning, control and analysis [Godziszewski 1990, Nowak 2011]. Institutionally, it is equivalent to management accounting, a process which collects, processes and reports the company's data for the purposes of the company's management process [Nowak 2000]. According to the International Federation of Accountants (IFAC) definition management accounting is a process of collecting, analysing, interpreting and communicating financial and non-financial information [Nita 2008]. Controlling, therefore, involves acquiring information from accounting and creating an information system supporting the processes of planning, controlling and analysing within an enterprise based on this information.

According to the definitions presented above, the content of controlling/management accounting largely overlaps with the content of the Marketing Information System (MIS), a coordinated system of teams of people and their activities as well as tools and pro-

cedures to collect, process, analyse and store the information necessary to take marketing decisions [Kotler 1994, Kędzior and Karcz 1997]. The MIS consists of four subsystems: archive resources, marketing intelligence, marketing research and marketing decisions support. The MIS functions thus overlap with the functions of controlling with respect to marketing. Marketing managers who use MIS are able to evaluate and interpret the financial information acquired. Gaining a permanent competitive advantage, however, requires cooperation between the enterprise's controlling/management accounting and marketing specialists. Cooperation of this kind should involve providing marketing managers with the financial information generated from the analysis of financial records (balance sheets, profit and loss accounts, cash flow statements) of a company and its competitors. This information is used, among other things, to determine the position of a company and its biggest competitors in a given industry and to indicate the need for potential changes in the company's marketing strategy.

The problem of overlap between the MIS and controlling/management accounting can be solved by putting controlling/management accounting functions in the right place in the company's organisational structure. That is because here we are dealing with the Information Management System, which, according to the functional approach, consists of the systems of marketing, production, research and development, personnel and finance information as well as the flow of information from outside of the Information Management System [Kaczmarczyk 1999]. Thus, it can be assumed that the information system created by management accounting/controlling is part of the Information Management System under the name of the financial information (or management information) system. We can also assume that it is a new and additional element of the Information Management System along with the existing system of financial information. Adopting such an approach means that all the functions in an enterprise are equally essential and heavily involved in the realisation of its strategic objectives. This is important in the light of the recent use, in the accounting literature, of the term business partner to describe a specialist in management accounting. This profession should occupy a place in the centre of organisational processes and the activities of these specialists should constitute the ultimate form of business partnership. This kind of business partner is regarded as a financial leader capable of guiding company managers to help them achieve the company's long-term financial objectives [Sobańska and Kabalski 2014].

CONCLUSIONS

The mutual interrelations between marketing and finance in an enterprise are present at the stage of marketing strategy development, in the course of its implementation and during the evaluation of its effects. Thanks to the use of financial information, it is possible to determine the target audience, to estimate competitors and to select appropriate marketing instruments. Similarly, the efficiency of a company's strategy is evaluated on the basis of financial indicators and gives the company an opportunity to review its strategy in future periods of time. To gain a permanent competitive advantage, enterprises must foster cooperation between controlling/management accounting and marketing specialists. This cooperation should involve providing the marketing department with information

acquired by analysing the financial reports (balance sheets, profit and loss accounts, cash flow statements) of the company itself and its competitors. The problem of overlap between the range of the Marketing Information System and controlling/management accounting can be solved by including the financial information system and possibly the system of management accounting information in the Information Management System.

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Summary. Marketing is responsible for the relationships between a company and its environment and corporate finance deals with the accumulation of financial resources and their allocation for the company's purposes. The mutual interrelations between marketing and finance in an enterprise are present at the stage of marketing strategy development, in the course of its implementation and during the evaluation of its effects. All of the company's marketing decisions have a financial aspect since they involve certain costs and bring in profits in the form of the company's revenue. To gain a permanent competitive advantage, enterprises must foster cooperation between controlling/management accounting and marketing specialists. This cooperation should involve providing the marketing department with information acquired by analysing the financial reports (balance sheets, profit and loss accounts, cash flow statements) of the company itself and its competitors.

Key words: marketing, controlling, marketing investments

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