Management Accounting and Marketing

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How Management Accounting Can Aid Marketers

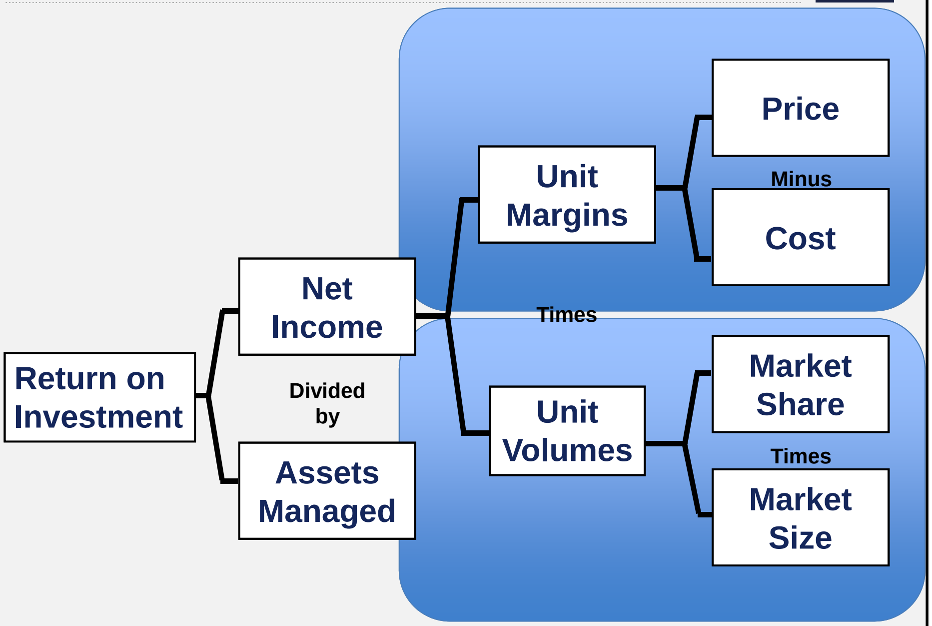
HOW TO DETECT…

HOW TO DESTROY…

HOW TO AVOID…

MARGIN-SUCKING MAGGOTS

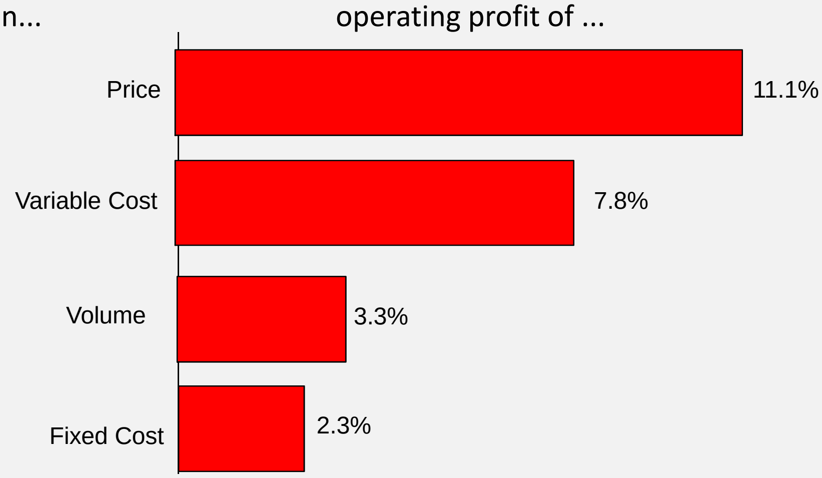
Profit: The Accountant's View



KW-016

Does Marketing (Even) Play the "Right" Game?

A 1% change in... → Creates a change in operating profit of ...



(Average economics of 2,463 businesses in Compustat)

Issue 1: Accounting for Brands

Branding's Contribution to Productivity

Describe this product…

What if it carried the logo…

Would you pay more versus unbranded?

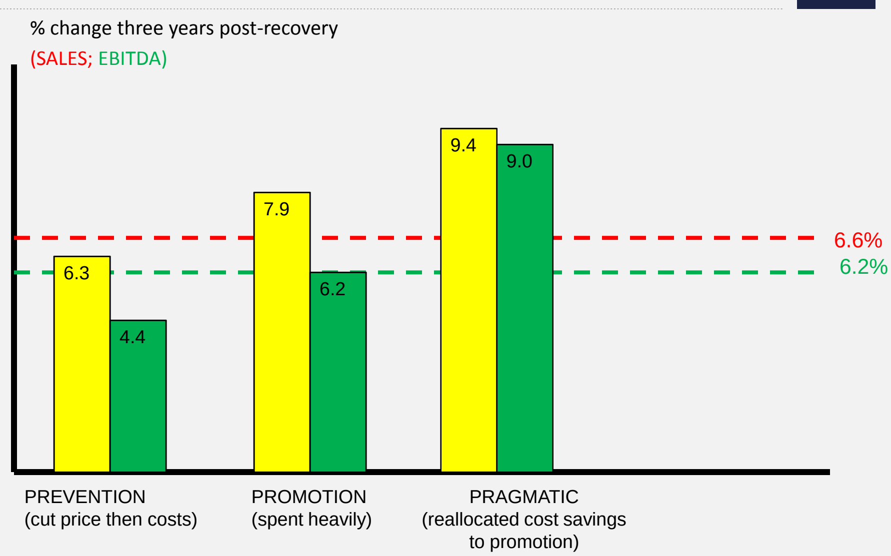
How much would Fisher-Price need to spend to introduce new products?

Does a strong brand reduce margin pressure from retailers?

The C-Suite Branding Challenge

- **Brand Development is usually a long term project**
  - Great brands build "equity" by reinforcing ***associations*** between a brand's tangible elements - name, logo, etc - and a desired set of characteristics
    - Three stage process of AWARENESS - TRIAL - ADOPTION
  - Those associations become a form of "customer promise" which, if kept, generate BOTH top and bottom line benefits over the long term. These benefits constitute "brand equity"
- **Branding is - for tax purposes - an "expense"**
  - Branding activities that do not generate enough revenues in the short term (i.e. this fiscal year) reduce your income (EBITDA)
  - When income levels are "stressed", brands can bring needed relief BUT it is at those times when firms are tempted to minimize branding "expense"

Why It Matters



SOURCE: "Roaring Out of Recession" (Gulati & Nohria, HBR 4/2010)

Issue 2: Lifetime Value of An Account

The Challenge:
How Will You Prioritize Your Accounts?

	Buyer A	Buyer B	Buyer C	Buyer D
Average Purchase	$15	$10	$30	$20
Gross Margin	20%	30%	25%	25%
Cost-to-Serve	15%	20%	20%	26%
Net Margin per Purchase	$.75	$1.00	$1.50	($.20)
X (# Buys/Year)	100	200	100	25
= Annual Net Margin	$75.00	$200.00	$150.00	($5.00)
X Average Lifetime	10 years	5 years	5 years	20 years
= (Discounted) Value Pre-Acquisition	$460.00	$760.00	$570.00	($43.00)
Acquisition Cost	$100	$50	$70	$10
Lifetime Value	$360	$710	$500	($53)

VOLUME AND SALES MIX

FREQUENCY

DURATION

ACQUISITION COST

Do We Have These Data?

Issue 3: Cost and Revenue Allocation

Shared Services – Cost Allocation

	PRODUCT A		PRODUCT B	
	$$$	%%%	$$$	%%%
Sales	990K	99%	10K	1%
Shared Salesforce ($200k)	198K		2K	
Contribution	792K		8K	

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Should It Be?

	PRODUCT A		PRODUCT B	
	$$$	activity %	$$$	activity %
Sales	990K	1 %	10K	99%
Shared Salesforce ($200k)	2K		198K	
Contribution	988K		(188K)	

Revenue Allocation

Product Bundle of Four Elements Sells for $900*
($1000 if purchased separately)
A - $200 B - $300 C - $100 D - $400

Questions:

1. **What revenue number should each report**
   - List price minus 10%?
   - List price for stronger brands, list minus 10%+ for weaker

2. **How should selling and promo expenses be allocated**
   - Equally
   - Proportionately based on % of selling price

3. **How do your answers change if Product C is being given away (for free) to generate sales of A,B and D (Razors and Razor Blades)**

4. **Should price discounts be recorded as a revenue decrease or as a selling expense?**

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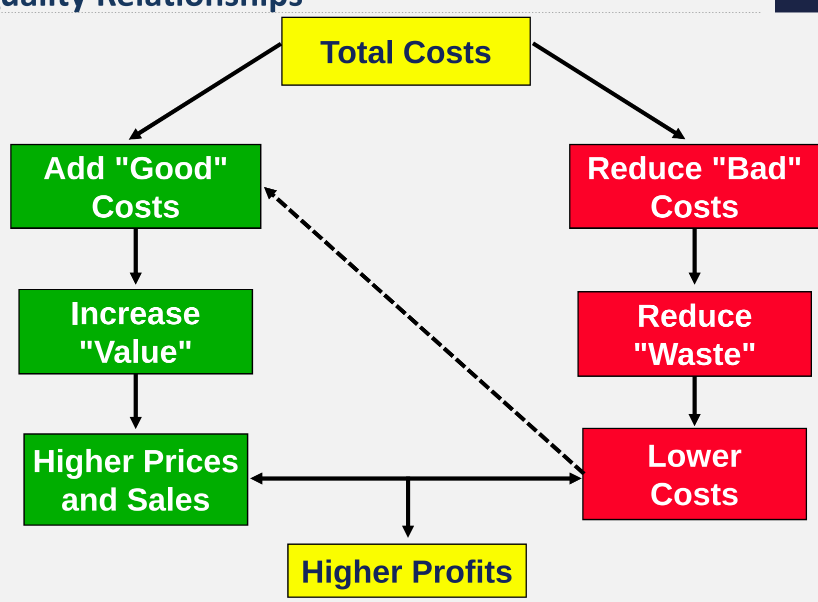
* note: This could also be a retailer trying to allocate cost of retail space across different product categories (eg food, health, general merchandise) or between hard goods and services?

What matters most “reliability” of measures or “validity” of measures?

How do you factor “strategic intent” into allocations in a consistent manner?

Issue 4: Lean Management

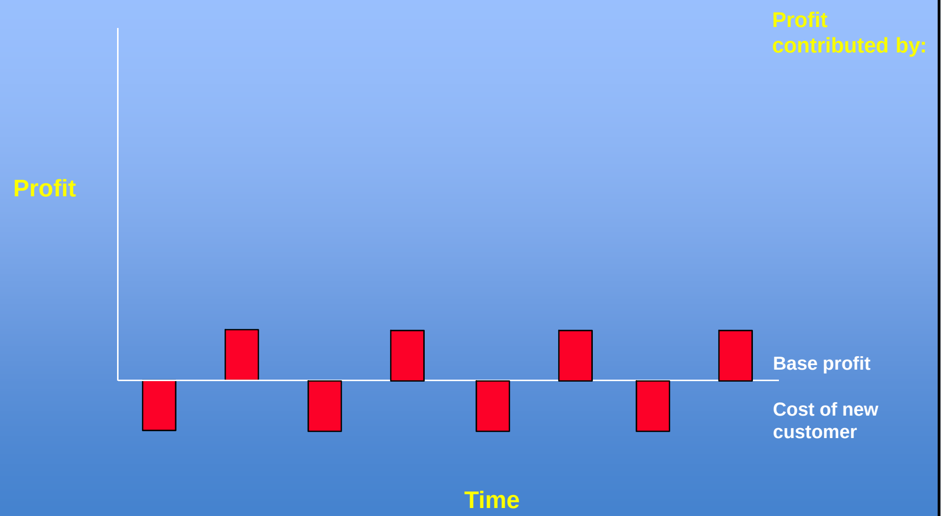
LEAN Management: Breaking Conventional Cost-Quality Relationships



Can we breakout “good” versus “bad” costs?

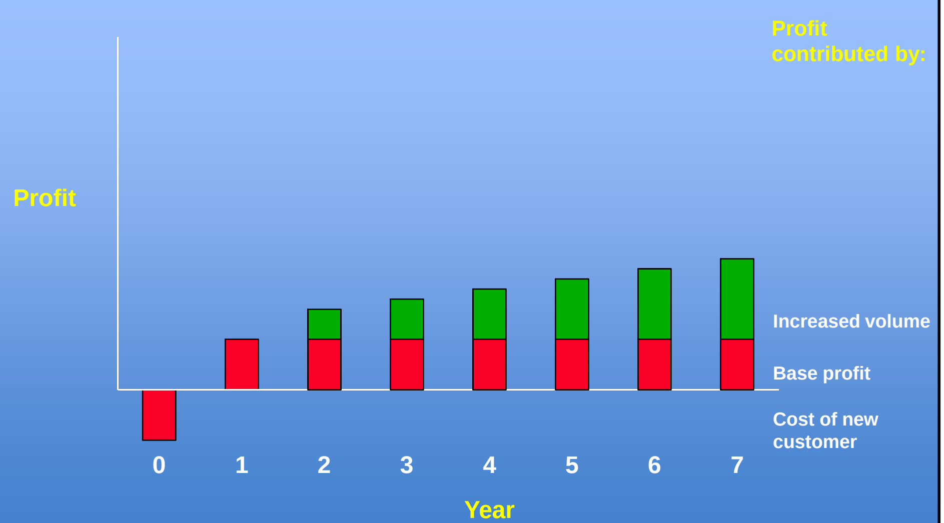
Issue 5: Loyalty Management

The Profitability of a Transaction Focus



Source: Bain and Company (Frederick Reicheld)

The Value of Customer Loyalty



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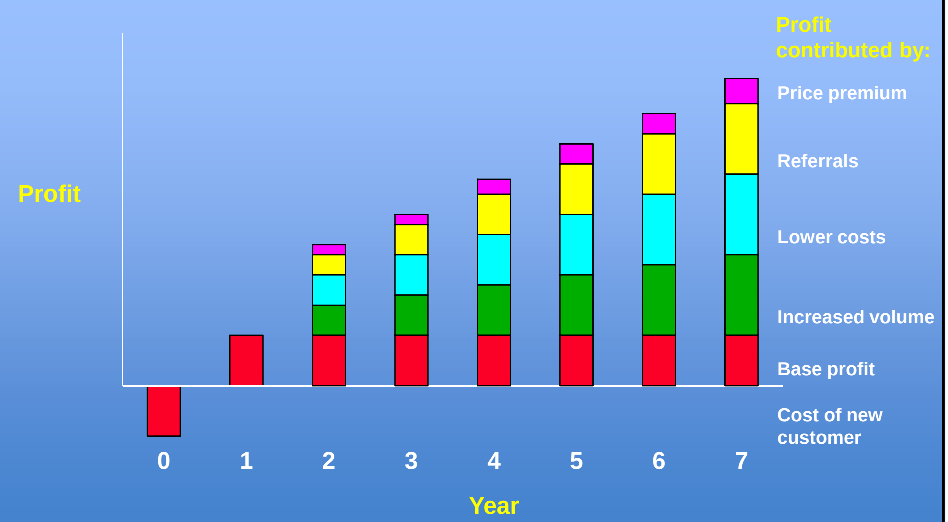
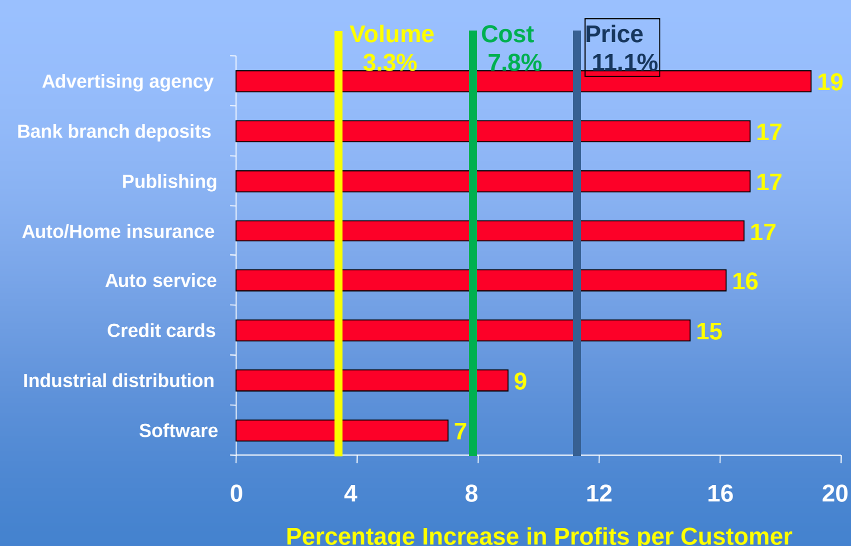


Source: Bain & Company (Frederick Reicheld)

Profit Impact of a One-Percent Increase in Customer Loyalty



Source: Bain & Company (Frederick Reicheld)

How do I know which loyalty effects I am gaining?

THE FINAL RULE : Focus On "Execution"

The EXECUTION of the

MARGIN-SUCKING

MAGGOTS

Thank You

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