

Accountants and marketers... closer than you may think

Accountants differ from marketers because the latter deal with people and the former with numbers. Compare the output of their work: marketers produce communications designed to persuade or convince buyers; accountants check the bookkeeping record of the business and prepare financial statements to show the shareholders how well or badly the company has fared. Poles apart you might say...Actually they are closer than most bean counters would like to admit.

 By Prof Roger Sinclair 27 May 2010

There are two accounting concepts that illustrate what this means: cash flows and income. Cash flows are simply the cash that flows into the business less what goes out. Successful businesses ensure that they are paid promptly for the work they do and that the money that comes in is greater than what they pay out. Income is the number that sits at the top of the statement of income and expenditure. It is sometimes called turnover, net sales or revenue but however it is named, it is the sum of the income that results from the firm's operations.

When a company is in financial trouble it normally means that its costs are too high or its income is too low. It's easier to cut costs than find additional income and so the company enters a spiral of cost-cutting against falling income until it goes out of business.

Convergence... and the marketer's unrecognised power

Where the two functions (accounting and marketing) converge is at the source of income or cash. The result of the marketer's work is the income that is the starting point of any set of accounts; the revenue line on the accountant's income statement is totally reliant on the success or failure of the firm's efforts to convince external users to buy or use the firm's products or services.

This places the marketer in a position of generally unrecognised power. Marketers are responsible for the cash in-flows and the revenue line in any business. The marketing function does of course create expenditure. In fact the allocation to marketing plus its administration expense is often one of the largest costs that many firms carry. Marketing therefore carries weight on both sides of the accounting equation.

The mystery is that marketers fail to capitalise on this convergence.

They can and they should

The fundamental role of marketing is to secure the cash flows from the present to the future. Marketers do use that language but in-store promotions, deals, price cuts and competitions are designed to accelerate cash flows in the short term: they generate financial benefits in the current period. In the long term cash flows are enhanced by building brand equity: strengthening the relationship between the brand and the customer.

There's one other convergence between the two business functions that draws them even closer together: the bone dry and precise definition of what makes an asset an asset. In essence it states that "an asset is a resource under the control of an enterprise to which future economic benefits will flow." That is not the entire wording but those are the key components that are relevant to this discussion.

Future economic benefits are the cash flows described above; starting with the present year and forecast into the future for a determinate number of years. The resource in the case of marketing can be nothing other than the brand. The brand therefore is the resource to which future economic benefits flow and, by definition, it is therefore an asset.

Two standards on recognising brands as assets

This convolution is important because accountants are ambiguous on the recognition of brands as assets. Ruled as they are by accounting standards, they have one standard that says they are not assets, but perversely they have another that says they are. The latter applies in a merger and acquisition where the buyer pays a premium to close the deal. The post-deal accounts have to explain what the premium comprises and it is made quite clear that one resource will be the brand. In other circumstances when the brand is home grown or internally generated it is not an asset.

This is not the place to explain why they draw this distinction but it is comforting to know that the accounting authorities are aware of the anomaly and at their own pace are trying to resolve it.

Meanwhile marketers should take full advantage of this language because more naturally than one would expect this is the Holy Grail. Cash flows are the route to the boardroom table. They are the basis of any executive discussion on investment, capital structuring and shareholder returns. What a shock it would be if many board members to have pointed out to them that their future and the cash base of the company is entirely in the hands of the marketing department.

There is much talk these days of the "empowered CMO". That is a chief marketing officer who has moved beyond the marketing function and into the mainstream of business management. The empowered CMO is probably a board appointment and is recognised by peers as a key contributor to the financial performance of the business. The empowered CMO is willing to be measured by financial metrics and understands that the measure of marketing success or failure is by reference to the brand asset value, the cash flows that cause it and for which he or she is responsible.

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