

# Marketing Finance / Measuring Marketing

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This is a generic outline. It is normally adapted to meet the specific requirements of each organisation.

## *Overview*

This is a very practical course. The emphasis is on participants learning by doing rather than listening to presentations. Thus participants will be involved in tackling case studies, justifying marketing budgets and building what-if models. Throughout the course participants will be challenged to explain how the principles can be used within their organisation. Participants will learn:

- the link between marketing actions and financial performance
- the weaknesses of conventional accounting in measuring marketing
- how to use shareholder value principles to justify and evaluate marketing campaigns and investment
- what drives marketing performance and the importance of ‘soft’ measures
- which marketing metrics are appropriate for their own organisation
- decide on the most effective marketing approach by using what-if sensitivity models
- talk the language of finance and build strong business cases for marketing activities
- evaluate the true performance of marketing

## *Topics Outline*

- Marketing and the Financial Statements

In this section we consider the impact of marketing on the financial statements:

- profit and loss
- balance sheet
- cashflow

Participants will learn how to build a sensitivity (or what-if) model that shows the links between marketing and financial performance. Through the model it will be possible to see how marketing activities such as advertising campaigns affect profit and working capital. Among the many important principles that emerge from this activity are:

- marketing is seen as an “expense” not an investment
- marketing activities often reduce short-term profitability
- successful marketing activities (increased sales) can have a negative impact on working capital – cash is king!
- conventional accounting is a poor guide to marketing performance

By building the model, participants will be able to understand fully the levers on financial performance and the impact of their own actions. They can see instantly how decisions – to increase promotional spend or bring forward a marketing campaign – affect the financial position of the company. Finally, they will have a greater understanding of financial and business risks.

- Marketing and Financial Measures

In this session we consider some of the more common financial measures – ROI, margin, WCR – and their relationship to marketing activities.

- The Financial Challenges for Marketing

Conventional accounting is a transaction-based system and struggles with intangibles. Many marketing assets therefore do not appear in the financial statements:

- customer awareness
- organically grown brands
- relationships

In this session participants will gain new perspectives on how good marketing can be perceived as harming financial performance – because the wrong measures are used.

- Value-based Marketing – Investing in Marketing Assets

Value-based marketing overcomes many of the problems of conventional accounting by taking a longer-term perspective. Participants will learn how to justify investments in marketing intangibles, such as brand and relationships, by using the same principles underpinning shareholder value, particularly Net Present Value. Other investment criteria will also be considered IRR, payback period and profitability index.

- Financial Metrics for Marketing

Building on the previous session, participants will explore appropriate financial metrics and examine how these can be improved:

- margin
- growth
- marketing ROI
- customer lifetime value (CLV) – and discounted CLV
  - revenues
  - acquisition costs
  - retention costs
  - operational costs
  - churn

These will be considered generally and within the context of justifying and evaluating marketing campaigns.

- Deciding on Marketing Metrics – Identifying Performance Drivers

Before one can decide on which marketing metrics to use, one needs to have a clear understanding of what actually drives marketing and financial performance – as recommended by Ittner and Larcker in the Harvard Business Review<sup>1</sup>:

“The companies in our study that adopted nonfinancial measures and then established a **causal link between those measures and financial outcomes** produced significantly higher returns on assets and equity over a 5-year period than those that did not.”

In this session participants will use an approach called causal mapping to identify the key marketing performance drivers for their organisation. This is based on a systems thinking approach and emphasises the danger of analysing in isolation. The results of an incentive campaign, for example, may have been heavily influenced by earlier advertising or a lack of competitor activity.

- How Customers Make Decisions

This session is a reminder that ultimately everything depends on customers making a decision to buy. It is therefore essential that participants are aware of the factors which influence such decisions.

- The Marketing Scorecard

Having identified the marketing performance drivers, participants will create their own marketing scorecard that incorporates measures in the following areas:

- market position – share, penetration
- marketing assets – brand, knowledge, relationships
- customers – awareness, attitudes, satisfaction, sales funnel
- marketing processes – research, segmentation, service, management
- activities – campaigns (reach, response, share of voice), internet
- channels
- financial (see earlier)

## *Approach*

Participatory and involving with an emphasis on the practical application of skills and knowledge. Workshops, combining group discussion, case studies, video, what-if scenarios, the application of models and tools and presentations, can be supported with online learning and coaching to ensure the transfer of insights and skills to the workplace.

More information: [commercial-awareness.com](http://commercial-awareness.com)

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<sup>1</sup> Coming up Short on Nonfinancial Performance Measurement, Ittner & Larcker, Harvard Business Review