

Financial Dimensions of Marketing Management

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The case is established for the development of precise cost/revenue/profit data on a real-time basis. It is assumed that financial responsibility will be decentralized; thus, detailed, disaggregated information is imperative. Past attempts to analyze the profitability of marketing efforts have taken the form of special statistical studies imposed over existing aggregated accounting data. These methods provide only indicators and do not provide a continuing integrated information system for marketing decision-making. The approach used in this book is based on *contribution theory* rather than *full-cost allocation*. A modular data base is advocated which provides the data necessary to both minimize the cost of promotion, production, and physical distribution and to measure the financial performance of a broad variety of marketing segments. Contribution theory as made operational by the suggested data base is used to present various financial tools which may be used to maximize the profitability of marketing efforts.

TWO

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Contribution theory is applied as segments are viewed as a gathering place for all revenues they produce and costs which they specifically require.

Costs are separated according to their behavior with respect to volume and their controllability with respect to time frames and management discretion. This allows the financial impact of a segment to be measured on a short- and long-run basis at alternative sales levels. Investment in assets necessitated by a segment can be considered using the return on investment type model; however, a residual income approach is advocated as being a better tool. This approach actually levies an "interest" cost for assets used by a segment.

THREE

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A modular data base systems design is presented to make contribution analysis operational. The system uses a common data base to measure the performance of functional costs of production and physical distribution, to measure the contribution of marketing segments, and to prepare external statements. The chapter includes an analysis of the demands that may be placed on the system so that they may be considered in its design.

FOUR

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FIVE

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The very amount and diversity of marketing information points up the need to formalize a marketing information system (MIS) for the firm. Criteria are presented for the establishment of such a system followed by a discussion of the principal kinds and sources of marketing information. An operational model is suggested to facilitate the establishment of an MIS system. Criteria of effectiveness serve to judge the success of the system.

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EIGHT

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Criteria are presented for developing a marketing budget together with the steps used in budget preparation. The budget is viewed as a planning and control device incorporating product and customer-related attachable variable and fixed costs as well as revenues. The basic analysis consists of the hierarchy of segment analysis, information requirements, an example of model application, and the analysis of a marketing plan. Optimization of segment contributions and variance analysis are presented as management tools.

NINE

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Successful implementation of the concepts embodied in the contribution approach require an effective understanding of the responsibilities of

both the financial and marketing executives. It must also be understood that the performance of a segment as an analytic unit is usually not the direct responsibility of any one manager but rather reflects the interaction of many members of the management team. Emerging developments in marketing efficiency are studied. Issues in salesmen's motivation and incremental performance measures are explained. It is also suggested that nonfinancial productivity measures be utilized to supplement financial measures.

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